EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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RUSSIA

Time for western help is now

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World News | Business Summary

Libya says it will charge two with Pan Am bombing

Libya says it will put on trial two of its nationals accused by Britain and the US of blowing up a Pan Am airliner over Lockerbie, Scotland, in 1988. The judge questioning the suspects said a guilty verdict could bring death sentences. Page 4

Croatian pessimism

The European Community-sponsored peace conference on Yugoslavia reconvenes today in The Hague but officials in the breakaway republic of Croatia are growing increasingly pessimistic about the EC's ability to end the civil war. Page 14

Mideast talks to resume

The second stage of Middle East peace talks will open in Washington tomorrow but Israeli negotiators are under instructions to remain only until Friday. Page 4

Hope for last hostages

A Lebanese Moslem leader said two German hostages, the last westerners held in Lebanon, will be freed this month in a deal involving two Shia militants jailed in Germany. But Bonn denied any deal.

Firebombs hit UK shops

Firebombs which caused damage to shops in Manchester and Blackpool, in north west England, are believed to have been planted by the Irish Republican Army. Page 6

Ulster appeal

A fresh appeal for the resumption of all-party talks on the future of Northern Ireland was made by the republic's foreign affairs minister, Gerry Collins.

Albanian food riots

Albanian police were given orders to shoot and the army distributed bread after two people died in food riots amid a deepening crisis. Food aid, page 6

Bhopal court ruling

An Indian court ordered Warren Anderson, former chairman of the US-based Union Carbide Corporation, to face trial in connection with the 1984 Bhopal gas disaster in which more than 3,000 died.

Ballot cold shoulder

Romanians turned their backs on a national ballot to endorse a new constitution for a multi-party presidential republic. Turnout was expected to be below 50 per cent.

President cancels trip

Zambian president Fredrick Chiluba cancelled a trip to Mozambique after a car accident in which his deputy was hurt and an aide was killed.

Rainforest project

A $1.5bn project to save the Amazonian rainforest may finally begin to take shape as a result of meetings under way in Geneva. Page 4

Global warming target

Negotiators from over 100 countries are in Geneva for two weeks to make another attempt to draft a climate change convention and set targets designed to combat global warming. Page 4

Businessmen missing

Two American businessmen have been reported missing near the Iraq-Kuwait border.

Storms hit Turkey

Storms raged through Turkey, closing the Dardanelles Strait to all except heavy-tonnage ships. Snow blanketed most of Greece with temperatures in Athens falling to -3 deg C.

Aids campaigner dies

Kimberly Bergalis, who campaigned for tough legislation after contracting Aids from her dentist, died from the disease at her home in Fort Pierce, Florida, aged 23.

Ultimatum to ferry workers issued by Sealink Stena

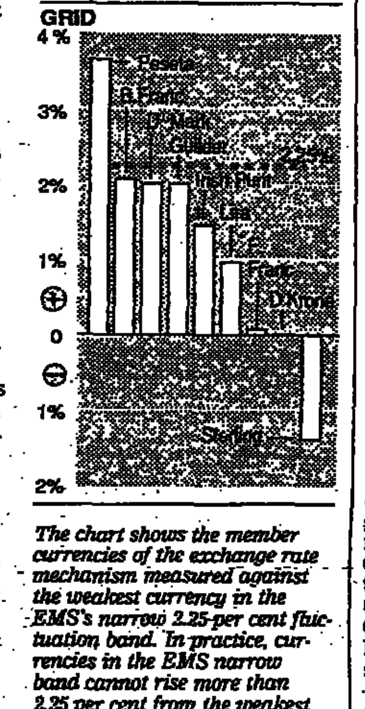
SEALINK STENA Line, which operates ferries cross the English Channel, will close unless the workforce accepts a drastic cost-cutting plan by the end of this month, the company's Swedish owner, Stena Line, warned. Page 14

MAXWELL: A new owner could be found very quickly for Britain's Daily Mirror newspaper, according to the administrator of the Maxwell family's financially-troubled private empire. Page 14

EUROPEAN Monetary System: The Spanish peseta remained at the top of the ERM grid last week, bolstered by high interest rates. The D-Mark was firm despite the Bundesbank's decision not to raise German rates. The French franc and Danish krona were weak, while sterling was still at the bottom of the system. Currencies, Page 27

EMS December 6, 1991

GRID



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25-per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

PAN AM: The last substantial assets of the collapsed US airline – its lucrative routes to Latin America and the Caribbean – are due to be auctioned at an unusual bankruptcy court hearing in New York this morning. Page 18

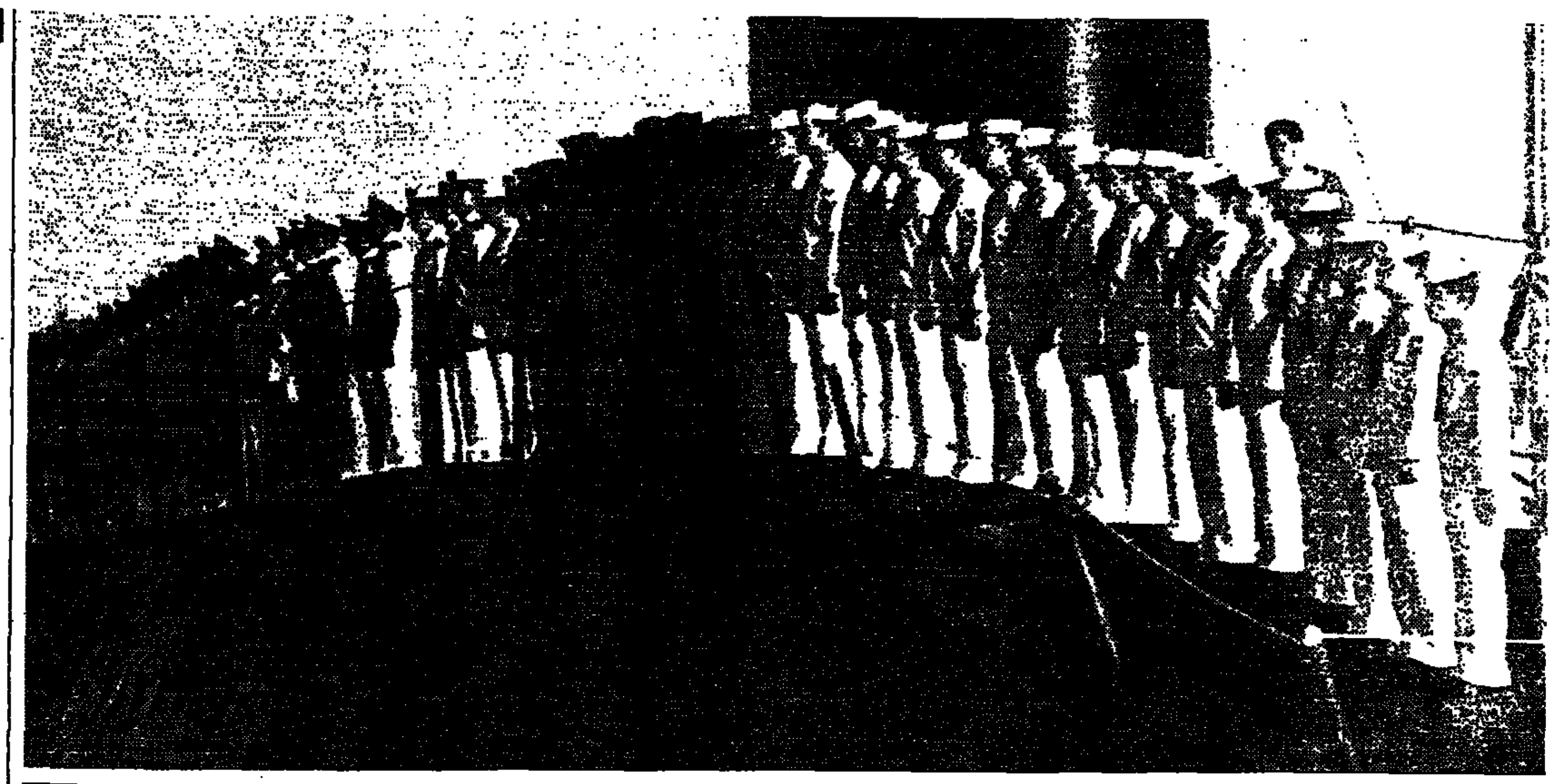
ROLLS ROYCE Motors, one of the last symbols of UK quality manufacturing still in British hands, could be sold to a foreign group. Its fate depends on talks between its parent, Vickers, and interested parties including BMW of Germany. Page 15

RIVA, Italian steel group, has beaten a German consortium led by Thyssen Stahl, Germany's largest steel producer, in the battle to buy two east German steel mills from the Treuhand agency. Page 18

BRITISH TELECOM's existing shareholders and 99 per cent of current applicants will be allocated shares in the government's sell-off of BT stock. A price of around 350p was expected to be announced before dealing in the shares starts in London today. Page 14

BRAZIL's National Development Bank has put four more state-owned companies on the privatisation list – steel groups Acominas, Cosipa and CSN, and the shipping group Lloyds Brasileiro. Page 18

GENERAL DYNAMICS, second biggest US defence group, launched its first commercial European satellite at the weekend. The satellite operator is Eutelsat, a European consortium of telephone companies. Page 6



Bush lays the ghosts of Pearl Harbour

By Lionel Barber in Honolulu

US PRESIDENT George Bush this weekend took a conciliatory line with the Japanese over the memory of Pearl Harbour, but stood firm with them on trade issues ahead of a planned tour of the Far East.

"World War Two is over. It's history," Mr Bush said on the 50th anniversary of the bombing of Pearl Harbour, the devastating Japanese assault which drew the US into the war in December 1941. "We

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US sailors line the deck of the nuclear submarine Nevada (left) as they pay their respects to those who died at Pearl Harbour 50 years ago

Major and Kohl risk isolation at Maastricht

By Our Foreign and Political Staff in Maastricht

LEADERS of the European Community arrived in Maastricht last night and entered a final hectic round of bargaining ahead of today's historic two-day summit on European political and monetary union.

Britain signalled that it was prepared to consider a fresh compromise on the development of a European-wide foreign policy.

The move coincided with eve-of-summit efforts to settle Spain's insistent demands for a clear treaty commitment to give poorer countries more EC money. Prime Minister Felipe González was expected to seek this in meetings last night with Chancellor Helmut Kohl of Germany, as well as Prime Minister Ruud Lubbers, the summit's Dutch chairman.

An early solution to this problem, in the teeth of Spain's threat to veto the treaty, would put Britain – the country most at odds with its partners – under even greater pressure to make concessions.

Mr John Major, the British prime minister, believes that the chances of agreement on political and monetary union are only slightly better than 50-50.

UK officials say there are three main issues which could still scuttle the summit. One is Spain's call for "cohesion" money for the EC's poorer south. The other two, chiefly involving Britain, are an extension of the EC's powers over social policy and the treaty's long-term "federal" goal.

There were signs, however, that on foreign policy, another sensitive issue, Mr Major would consider a compromise. Britain's partners are seeking, at the very least, majority voting on the implementation of foreign policy decisions taken unanimously. But the move has so far been opposed by Mr Major because he fears the distinction between the substance and implementation of policy might become blurred.

The prime minister was said to be ready to consider majority voting if another stage was introduced to the voting procedure.

Under the suggested compromise, once a common EC action had been decided, there would be another unanimous decision to define in detail just what implementation measures would be decided by majority.

However, Mr Major was not the only leader under pressure as government heads geared up for today's vital meeting. Mr Kohl is virtually isolated in wanting more powers for the European Parliament than most fellow EC leaders want to concede, a German spokesman admitted last night.

German public opinion also seems increasingly worried about Mr Kohl giving up the D-Mark for a single currency. The German spokesman blamed his country's press for causing anxiety about something "which will not happen until the end of the century".

But Mr Lubbers claimed the only option was to succeed. "We are in a way prisoners, so we should reach an agreement anyhow," he said in a television interview. The Dutch prime minister indicated he would keep the leaders in session until they struck a deal.

Mr Jacques Delors, the Commission president who says he has come to Maastricht as a broker of compromises, took a strong federalist line.

Addressing some 1,000 European federalists, he recognised that leaders of the Twelve will probably hide the word "federal" under the table, but he called on them to keep alive their federal aspirations for the future.

Mr Major underlined his hopes of reaching an overall deal in an unprecedented series of newspaper articles written for publications in each of the 11 other Community states.

The articles stressed the UK's determination to remain at the "heart of Europe", but emphasised Mr Major's determination not to sign any treaties which created a centralised federal structure.

Finance ministers met last night over dinner to discuss monetary union which will be the first item on the leaders' agenda this morning.

Pages 2 and 3

- Major under scrutiny from critics at home
- Leaders reminded of single market goal
- Agreement on Emu begins tough journey
- East Europeans fear delays
- Federalist faithful give Delors hero's welcome

Page 13

- Little Englanders and good Europeans

US jobs figures show 'double-dip' recession likely

By Michael Prowse in Washington

THE SHARP DROP in US employment figures last week was evidence that the economy was heading for the feared "double dip" recession, Senator Lloyd Bentsen, chairman of the Senate finance committee, said yesterday.

On Friday, the Federal Reserve responded to the worst employment figures since last winter by cutting the key federal funds rate by a quarter point to 4.5 per cent.

Mr Bentsen's concerns are shared by many economists in the private sector. But some economists argue that the US economy is not facing a "double dip" because it never recovered properly from the recession that began in July 1990. "I don't believe we ever came out of recession," said Mr Allen Sinai, chief economist at The Boston Group, economic consultancy.

Others still hope that the economy will be stagnant rather than decline and begin to show recovery in the spring.

The main question for markets is how quickly the Fed will sanction another cut in the discount rate, currently 4.5 per cent. The discount rate is the rate at which the Fed lends to commercial banks and sets a floor for interest rates throughout the economy.

Some analysts expect a move this week, but it could be delayed until the next meeting of the Fed's policy making open market committee later this month.

All sectors of the economy were affected by Friday's 241,000 drop in employment. But the headline figure may have slightly exaggerated the economy's current weakness. Construction was affected by unusually bad weather; a steep fall in retail employment reflected department stores' reluctance to hire temporary workers for the Christmas period.

The Labour Department also applied new seasonal adjustment factors last month: employment would have dropped 170,000 if October's numbers had been calculated on the same basis. But this is still a big drop. It suggests personal income will decline, putting further pressure on consumer spending, which was already declining in October.

The jobs report, in any case, was far from the first hint of renewed recession. Consumer confidence this month dropped to the lowest level in more than a decade. The Purchasing

Continued on Page 14

Key republics declare the death of the Soviet Union

By John Lloyd in Moscow, Chrystia Freeland in Kiev and Our Foreign Staff

THREE KEY Soviet republics – Russia, Belorussia and Ukraine – yesterday declared the Soviet Union dead and formed a new "commonwealth of independent states".

Their move appeared to deal a fatal blow to President Mikhail Gorbachev's attempts to reshape the Soviet Union into a loose confederation of 12 republics and raised serious doubts about his future.

The three core republics, which have 70 per cent of the Soviet population and much of its economic resources, plan to set up "co-ordinating organs" in Minsk, the Belorussian capital, replacing the Soviet capital in Moscow.

The agreement was signed by Mr Boris Yeltsin, the Russian president, Belorussian president Stanislav Shushkevich and newly elected President Leonid Kravchuk of Ukraine after a two day meeting at a village near Brest.

The Soviet Union "as a subject of international and geopolitical reality no longer exists," the three leaders declared. They said their new commonwealth was open to all members of the former Soviet Union, as well as other states that shared its aims and principles.

In Washington, a White House spokesman said Mr Yeltsin phoned President George Bush yesteday to inform him of the move. Asked about the impact on east-west relations, the spokesman said: "It would be premature to say until we know more about the accords."

Earlier, Mr James Baker, US secretary of state, said the Soviet Union was dead and warned that its disintegration could result in violence, with the added risk of the presence of nuclear weapons. He said it was still far from clear what would replace the Soviet Union.

Mr Gorbachev was expected today to make a last attempt to save some form of union at meetings with republican leaders. In an emotional appeal on Ukrainian television last night, he urged the republic to pull back from a path of separatism. They would face chaos and anarchy if they left the Soviet Union, he warned.

But the broadcast was followed by hostile commentaries, including one from a representative of the Rukh nationalist movement who described it as a "totalitarian speech".

The proposed commonwealth of Slavic states is likely to be very loose: Mr Yeltsin warned of "not demanding that one's partner do the impossible".

But the three republican leaders said they would preserve a united command over a "general military-strategic space" and single control over nuclear weapons. They would strive for liquidation of nuclear weapons and complete disarmament under international control.

Army chief sacked, Page 4

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The past few months have been a period of enlightenment for Professor Luc Montagnier, Europe's leading Aids researcher. Results from his laboratory in Paris and other European research centres are leading to a new understanding of Aids. Page 32

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East Germany: Commerzbank has built up a network in east Germany from scratch 9

Computing: A year after Fujitsu took control, ICL shows a bouncy self-confidence 12

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■ TOMORROW:

Chemical Industry : Between the recession Scylla and the environment Charybdis.

Netherlands : Well-positioned to benefit from the single market.

■ THURSDAY :

Andalucia : Hopes for growth pinned on next year's Expo.

European Finance and Investment: France : A modern financial system takes shape.

■ FRIDAY :

Software at Work : Our quarterly guide to the latest trends and developments.

Scotland : Awaiting the electorate's verdict on an issue that will not go away.

THE MAASTRICHT SUMMIT

Major under scrutiny from critics at home

By Alison Smith

MR John Major, the British prime minister, flew to Maastricht yesterday to face one of the toughest tests of his 13-month premiership.

His political dilemma was illustrated by calls from the opposition and from Mr Edward Heath, the former prime minister, for him to make the summit a success, while speculation mounted that Mrs Margaret Thatcher, his predecessor, would undercut him by leading a rebellion against any Maastricht deal.

Both Labour and Liberal Democrat politicians said Mr Major was certain to sign up to a deal on European union, despite his insistence that if necessary he would stand firm against an agreement.

The logic of the opposition's argument was echoed by Mr Heath as he warned that the other EC states would not let Britain prevent the summit from being a success.

"That has got to govern the prime minister's conduct to a very considerable extent because he cannot afford to put himself in a position where everybody else says: 'Very well, we are making it a success, 11 of us are forging ahead and you are in the second line,'" Mr Heath said in a television interview yesterday.

Labour's Mr Gerald Kaufman, the opposition foreign affairs spokesman, said Mr Major should sign up to the social charter.

Labour is conscious that a conflict between Mr Major and Mrs Thatcher might not be bad news politically for the prime minister and will be at pains to emphasise its own criticisms of the government's stance.

Mr Paddy Ashdown, the Liberal Democrat leader, said: "Mr Major will huff and puff and talk tough in the House of Commons to keep his tiny right-wing rump of Euro-sceptics in line, but at the end of the day he knows it is in Britain's interests to sign at Maastricht and that is what he will do."

The strength of feeling among some Tories was illustrated yesterday by angry outbursts from backbenchers to the federalist speech made by Mr Jacques Delors, the European Commission president, in Maastricht.

Spokesman who wields unsung influence

By Philip Stephens, Political Editor, in Maastricht

FOR the next few days his message will be carried across the front pages and airwaves of Europe. Yet his face will be glimpsed only rarely and then by accident; for all except the 1,500 journalists covering the European summit at Maastricht he will be known only as Mr British Government Sources.

The young, self-effacing, economist charged with presenting Prime Minister John Major's case against the tide of federalism to a watching world is Mr Gus O'Donnell, the Downing Street press secretary. Mr Major brought him from the Treasury to replace the, by then, infamous Mr Bernard Ingham when he succeeded Mrs Margaret Thatcher a year ago.

Mr O'Donnell is trusted absolutely by the prime minister. During the two years they have worked together (the first during Mr Major's spell as Chancellor of the Exchequer) they have become instinctive friends. The press secretary shares knowledge of the government's most precious secrets.

He is as likely as any cabinet minister to be called at the weekend by Mr Major for advice on a matter of policy as well as of presentation. He works gruelling hours and has a bed at 10 Downing Street.

But the quaint tradition that says civil servants in Britain must be no more than anonymous ciphers of their political masters decrees that Mr O'Donnell should not have a public profile.

Breaching that code ensured that Mr Ingham's career in Whitehall had to end with Mrs Thatcher's.

When Mr O'Donnell took the post he was warned by Sir Robin Butler, the head of the civil service, not to tread the same path.

Tradition of British civil service decrees he should not have a public profile

So as he hosts the summit briefings which will keep the waiting media in touch with Mr Major's negotiating stance, Mr O'Donnell will preface each with a simple instruction: his words should be attributed only to that mysterious character, Mr British Government Sources. Television cameras and photographers will be barred, tape-recorders frowned upon.

The anonymity will belie the influence.

At 39, Mr O'Donnell has spent most of his career in the vaguely obscure world of economic forecasting. An economist by training – he has degrees from both Warwick university and Nuffield College, Oxford – his spell as the Chancellor's press secretary was meant to be a brief interlude in a high-flying, Whitehall career. He tells colleagues that he intends still to return to the more traditional mainstream.

He was appointed to the highly-selective group which became known as the war cabinet during the Gulf conflict earlier this year. Senior ministers looked on enviously.

Since then he has become intimately involved in the formulation as well as the presentation of policy. In the run-up to Maastricht he has frequently sat in on Mr Major's bilateral talks with other European leaders. His advice will be keenly sought if at five minutes to midnight tomorrow Mr Major is faced with the agonising choice between compromise and concession.

His style is as close to Mr Major's as that of Mr Ingham to Mrs Thatcher, perhaps because prime minister and press secretary share a similar south London background. Both are keen fans of soccer and cricket.

His inexperience has shown up in one or two presentational blunders during the past year but his deliberately straightforward approach to journalists has won Mr Major valuable credit among British journalists.

More generally, his instinctive sympathy with the prime minister's populist style has made for the television pictures which have bolstered Mr Major's personal opinion poll rating.

The face of Gus O'Donnell: glimpsed only rarely

EC leaders reminded of single market goal

By Andrew Hill in Brussels

EC LEADERS gathering today to discuss the long-term goal of European union will receive a sharp reminder of how much needs to be done before the short-term goal of a single European market can be achieved.

The 12 leaders' Maastricht dossiers will include the latest details of the Community's progress towards free movement of persons, goods, capital and labour. Commission officials hope some – notably Italy's Mr Giulio Andreotti – will be shamed into speeding the implementation of single market legislation.

With only 55 weeks left before the target date of January 1 1993, about 65 of the 282 barrier-flattening measures proposed six years ago still have to be agreed at ministerial level.

But implementation of agreed measures and the removal of border controls present more of a problem. By the end of last month, according to the Commission, Italy had turned only half of the relevant directives into national law. The top nation, Denmark, has pushed through 93 per cent.

The 1992 programme is not part of the formal agenda at Maastricht, but Commission officials believe a successful summit would give impetus to the single market plan; only four or five single market measures have been agreed since September.

But the Dutch presidency of the EC has scheduled four important meetings before the end of the year at which transport, finance, agriculture and internal market ministers could agree as many as 10 or 15 draft proposals, leaving about 50 to be finished off – or quietly dropped – before 1993.

Nuns argue for spiritual value as a firm foundation to single currency

THE Sisters of Charity of Maastricht yesterday gave solidly spiritual backing to the vision of a single European currency, writes David Marsh in Maastricht. It would make shopping easier across the border in Germany, said Ignace van Heyningen, the Dutch superior of the 1,200-strong religious order headquartered in a medieval convent behind the church of Saint Servatius in the town centre.

Europe, however, cannot live by the Ecu alone. Sister Marielene Lambe, a 66-year-old nun who specialises in geriatric care, added: "The single currency must be based on good, stable solid foundations of humanity combining different religions. This must be the binding element – otherwise we are nowhere."

The sisters have drawn up their own manifesto for the summit. Over a convent lunchtime snack of local Limburg apple pie, Sister Ignace said EC leaders should strengthen the European parliament and back the third world. "I'm all for the Ecu," she said.

But in view of mounting social problems – which the nuns do their best to heal through work with poor people from the Dutch and immigrant communities – she said she was "not optimistic" about where Europe was heading. "That's why we have to fight to make our voice heard. The summit is not just a question of power and money – it's about other values too."

On the problems facing Britain, the nuns show more benevolent understanding than will probably be displayed by most politicians. "England has always had its splendid isolation," said Sister Francis Verbeek, a sprightly 83-year-old who has been a nun since 1929.

The Sisters of Charity were founded by a Belgian nun in 1837. Of 750 sisters in the whole of the Netherlands (the next biggest section is in Indonesia), 200 live in Maastricht.

The average age is 76, and the last novice entered in 1965.

Since the fall of the Berlin Wall, the order has been extending its links towards eastern Europe. Sister Ignace admits, however, that the nuns could show more European spirit by renewing ties with sisters in Aachen across the border in Germany. "We used to have meetings with them, but they died," said Sister Francis.

INTERNATIONAL ECONOMIC INDICATORS: EUROPEAN COMMUNITY CONVERGENCE

This table gives yearly averages of the economic series most relevant to convergence for Emu. It covers all EC countries except Luxembourg, which is in a monetary union with Belgium, plus an average for the EC as a whole. Values for 1991 are European Commission forecasts. All figures are percentages.

GERMANY

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	4.0	10.4	3.9	−3.7	n.a.
1982	4.4	9.0	5.8	−3.3	n.a.
1983	3.3	7.9	6.9	−2.5	40.9
1984	2.0	7.8	7.1	−1.9	41.8
1985	2.2	6.9	7.1	−0.9	42.5
1986	3.1	5.9	6.3	−1.3	42.7
1987	2.0	5.8	6.2	−1.8	43.8
1988	1.6	6.1	6.1	−2.1	44.5
1989	2.6	7.0	5.5	+0.2	43.6
1990	3.4	8.9	5.1	−1.9	43.6
1991	4.3	8.6	4.8	−3.8	46.2

FRANCE

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	11.4	15.8	7.3	−1.9	n.a.
1982	12.0	15.6	8.0	−2.8	n.a.
1983	9.6	13.6	8.2	−3.1	33.2
1984	7.3	12.5	9.8	−2.8	29.5
1985	5.8	10.9	10.2	−2.9	31.8
1986	5.3	8.4	10.3	−2.7	33.9
1987	2.9	9.4	10.4	−1.9	34.2
1988	3.3	9.0	9.9	−1.8	35.9
1989	3.6	8.8	9.4	−1.2	36.0
1990	2.7	9.9	9.0	−1.6	36.6
1991	3.1	9.0	9.5	−1.5	37.2

ITALY

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	18.6	20.6	7.4	−11.4	n.a.
1982	17.1	20.9	8.0	−11.3	n.a.
1983	14.9	18.0	8.8	−10.6	72.0
1984	11.4	15.0	9.5	−11.8	77.2
1985	8.9	14.3	9.4	−12.5	84.0
1986	7.7	11.7	10.5	−11.7	88.5
1987	5.9	11.3	10.2	−11.0	92.9
1988	6.2	12.1	10.8	−10.9	96.1
1989	6.3	12.9	10.7	−10.1	98.9
1990	7.5	13.4	9.8	−10.6	98.6
1991	7.2	12.9	9.4	−9.9	101.2

UNITED KINGDOM

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	11.4	14.8	8.9	−2.6	n.a.
1982	7.6	12.7	10.3	−2.5	n.a.
1983	5.3	10.8	11.0	−3.3	59.1
1984	4.6	10.7	11.3	−4.0	60.4
1985	5.7	10.6	11.4	−2.8	59.0
1986	3.6	9.8	11.4	−2.4	58.1
1987	5.0	9.5	10.4	−1.3	56.1
1988	6.7	9.3	8.5	+1.1	51.0
1989	6.9	9.6	7.0	+1.3	45.7
1990	8.4	11.1	6.4	−0.7	42.8
1991	6.5	9.9	8.4	−1.9	43.8

SPAIN

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	18.6	15.8	14.4	−3.9	n.a.
1982	17.1	16.0	16.3	−5.6	n.a.
1983	14.9	16.9	17.7	−4.8	38.3
1984	10.9	16.5	20.6	−5.4	42.8
1985	8.5	13.4	21.8	−6.9	47.6
1986	11.1	11.4	21.1	−6.0	48.5
1987	5.9	12.8	20.4	−3.2	48.7
1988	5.6	11.8	19.3	−3.3	44.5
1989	6.9	13.8	17.1	−2.7	45.2
1990	7.3	14.7	16.1	−4.0	44.5
1991	6.6	12.4	15.8	−3.9	45.6

NETHERLANDS

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	5.5	12.2	8.9	−5.5	n.a.
1982	6.1	10.5	11.9	−7.1	n.a.
1983	1.9	8.8	12.4	−6.4	62.0
1984	1.9	8.6	12.3	−6.3	66.1
1985	1.8	7.3	10.5	−4.8	69.7
1986	0.5	6.4	10.2	−6.0	71.7
1987	−0.4	6.4	10.0	−6.6	75.3
1988	1.7	6.3	9.3	−5.2	77.4
1989	1.5	7.2	8.7	−5.2	77.6
1990	2.8	9.0	8.1	−5.3	78.5
1991	3.6	8.9	7.2	−4.4	78.4

BELGIUM

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	4.7	13.8	9.5	−12.8	n.a.
1982	7.1	13.4	11.2	−11.0	n.a.
1983	5.6	11.8	12.5	−11.3	107.0
1984	5.2	12.0	12.5	−9.0	112.3
1985	6.1	10.6	11.6	−8.5	119.5
1986	3.7	7.9	11.6	−9.1	123.7
1987	2.3	7.8	11.4	−7.1	131.3
1988	1.7	7.9	10.0	−6.9	132.2
1989	4.6	8.7	8.5	−6.7	129.9
1990	3.0	10.1	8.1	−5.6	127.3
1991	3.1	9.3	8.8	−6.3	128.4

PORTUGAL

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	17.6	n.a.	7.3	−9.3	n.a.
1982	20.7	n.a.	7.2	−10.4	n.a.
1983	24.6	n.a.	8.0	−9.0	56.0
1984	24.7	n.a.	8.7	−12.0	61.4
1985	21.7	25.4	8.8	−10.1	69.5
1986	20.5	17.9	8.2	−7.2	68.4
1987	11.2	15.4	6.8	−6.8	71.6
1988	11.6	14.2	5.6	−5.4	74.0
1989	12.8	14.9	4.8	−3.4	71.5
1990	15.0	16.8	4.6	−5.8	68.2
1991	14.6	17.1	4.0	−5.4	64.7

DENMARK

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	10.1	19.3	8.3	−6.9	n.a.
1982	10.6	20.5	8.9	−9.1	n.a.
1983	7.6	14.4	9.3	−7.2	74.3
1984	5.7	14.0	8.7	−4.1	78.0
1985	4.3	11.6	7.2	−2.0	74.6
1986	4.6	10.5	5.6	+3.4	67.2
1987	4.7	11.9	5.7	+2.4	63.9
1988	4.5	10.6	6.5	+0.5	64.0
1989	4.3	10.2	7.7	−0.5	63.3
1990	2.3	11.0	7.9	−1.5	66.4
1991	1.9	10.1	9.2	−1.7	67.2

GREECE

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	19.8	17.6	4.0	−11.0	n.a.
1982	25.1	15.4	5.8	−7.7	n.a.
1983	19.1	18.2	7.8	−8.3	44.3
1984	20.3	18.5	8.1	−10.0	53.2
1985	17.7	15.8	7.8	−13.8	62.5
1986	17.4	17.4	7.4	−12.6	65.3
1987	13.8	16.6	7.4	−12.2	71.5
1988	15.7	n.a.	7.6	−14.4	79.7
1989	14.0	n.a.	7.5	−18.3	85.1
1990	18.2	n.a.	7.5	−19.8	93.7
1991	20.0	n.a.	8.8	−17.3	96.4

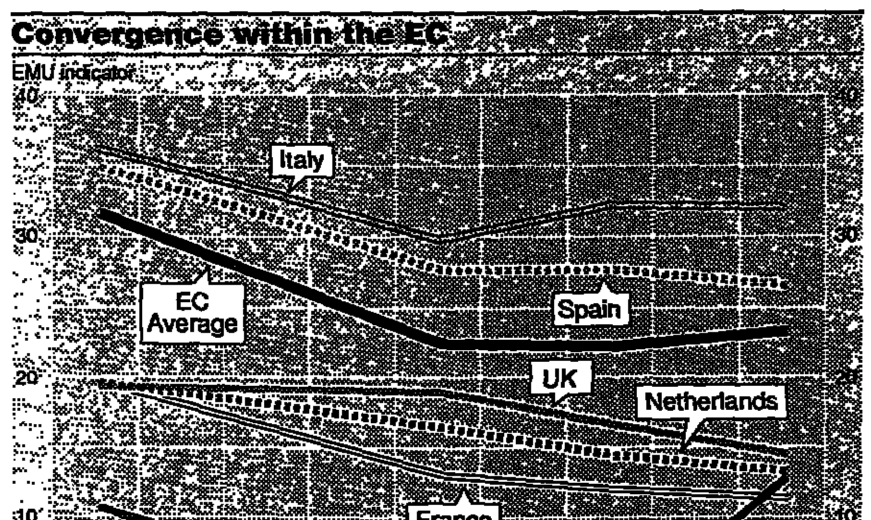
IRELAND

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	17.4	17.3	10.8	−13.4	n.a.
1982	15.2	17.0	12.5	−13.8	n.a.
1983	10.7	13.9	15.2	−11.8	97.4
1984	8.4	14.6	16.8	−9.8	102.4
1985	5.2	12.7	18.2	−11.2	104.7
1986	6.3	11.1	18.2	−11.2	115.7
1987	2.5	11.3	18.0	−9.1	118.5
1988	3.2	9.4	17.4	−5.2	115.4
1989	5.1	9.0	16.0	−3.5	104.7
1990	1.6	10.1	15.6	−3.6	103.0
1991	2.1	9.2	16.8	−4.1	102.8

EUROPEAN COMMUNITY

	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	10.9	15.1	7.7	−5.3	n.a.
1982	10.6	14.3	9.0	−5.5	n.a.
1983	8.5	12.7	9.9	−5.3	51.6
1984	6.8	11.8	10.7	−5.3	54.8
1985	6.1	10.9	10.8	−5.2	57.3
1986	5.6	9.2	10.7	−4.8	58.5
1987	4.1	9.4	10.3	−4.2	58.8
1988	4.6	9.4	9.7	−3.7	59.7
1989	5.1	9.9	8.9	−2.9	59.0
1990	5.7	11.1	8.4	−4.1	60.3
1991	5.5	10.4	8.6	−4.4	61.6

German figures for 1991, except for the unemployment rate, refer to unified Germany. Previous years refer to West Germany only. **Inflation**: annual percentage growth in the GDP deflator. **Interest rates**: nominal long-term government bond yields. **Unemployment rate**: percentage of the civilian labour force. **Government balance**: the net lending (+) or net borrowing (−) of general government as a percentage of GDP. **Debt**: the gross debt of general government as a percentage of GDP. Source: European Commission.



Agreement on Emu treaty begins a tough journey

THE EXPECTED agreement this week on a treaty on economic and monetary union does not ensure it will happen. On the contrary, the draft contains what appear to be tough convergence criteria. These need to be met before the move into the third stage of Emu, which can only occur after 1996.

Yet, as both the table and chart suggest, there has been little sign of convergence in recent years. The main exception is the deterioration in the performance of the European Community's German bellwether.

In the draft treaty the criteria to be used when inspecting a member state's suitability for Emu are to be:

- a rate of inflation "that does not exceed that of the, at most, three best performing member states . . . by more than 1½ percentage points" for the previous year;
- a currency that "shall have respected the normal fluctuation margins provided for by the exchange rate mechanism of the EMS without severe tensions for at least the last two years";
- "a nominal long-term interest rate that does not exceed that of the, at most, three best performing member states . . . by more than 2 percentage points" in the previous year; and
- a fiscal policy that avoids "gross errors", the criteria being a ratio of planned or actual government deficit to gross domestic product of 3 per cent and a ratio of government debt to GDP of 60 per cent.

These criteria are not binding. Those on government finances, in particular, are guides for judgment. Nonetheless, only if seven countries (or six, or eight, the precise number still being undecided) are deemed to meet the criteria, may Emu proceed. Countries that fail to meet the criteria initially will need to do so before they may enter the portals of the European central bank.

In 1990, only France would have satisfied the conditions for Emu. On a generous interpretation, Denmark, Germany, and Ireland might have been added. Belgium would have failed on public finances, the UK would have failed on inflation and the exchange rate, Spain would have failed on inflation, the exchange rate and interest rates, and Portugal would have failed on everything except public debt. Italy and Greece would have failed on everything.

Worse, the one respect in which convergence has undoubtedly improved since 1987 has reflected the deteriorating performance of west Germany. This point, along with the Italian difficulties, is brought out in a recent paper by Mr Paul de Grauwe of the University of Leuven and Mr Daniel Gros of the Centre for European Policy Studies.*

Mr de Grauwe and Mr Gros calculate an Emu indicator (shown here for the six largest countries and the EC average). The indicator is the sum of the rate of inflation, the budget deficit as a percentage of GDP, the budget surplus as a percentage of GDP that is needed to bring the ratio of public debt to GDP to the EC average within 10 years, the rate of unemployment, and the current account as a percentage of GDP. The higher the indicator, argue the authors, the worse the country's performance.

Of the smaller countries, Denmark is expected to be close to the Netherlands in 1991, and Portugal, Belgium and Ireland close to Spain. Greece, with an indicator of 53.2, is in a class of its own.

Little convergence has occurred since 1987 and there has also been little improvement in levels of performance. Yet, of the large countries, only Italy's position looks hopeless, the main problem being its public finances. To converge on the EC's average ratio of public sector debt to GDP even over 10 years, its budget deficit needs to improve by a daunting 8 percentage points of GDP.

Either Italy manages an unprecedented budgetary transformation, or it defaults on its debts, or it will be excluded from Emu, or the criteria will be ignored. There are no other alternatives.

Martin Wolf

Paul de Grauwe and Daniel Gros, "Convergence and divergence in the Community's economy on the eve of economic and monetary union", in Setting European Community Priorities 1991-92, Peter Ludlow (ed), Centre for European Policy Studies, 1991.

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THE MAASTRICHT SUMMIT

THE WORLD VIEW

East Europeans fear delays in timetable for EC entry

By Judy Dempsey

FEARS are being voiced in eastern European countries that the Maastricht summit could slow their entry into the European Community if the 12 member states opt for deeper integration.

Poland, Hungary and Czechoslovakia hope that once the summit is out of the way, the EC will start serious work on formulating a long-term economic and political strategy involving central and eastern Europe. But Polish officials who, like their Hungarian and Czechoslovak counterparts, expect to sign an association agreement with the EC later this month, say Maastricht could delay the timetable for full entry.

"However, no matter what new rules are agreed at Maastricht, we will have to adapt," a Foreign Ministry official said. "Of course we believe in the free market and capitalism. We want Europe to be open and free in this respect, with few regulations. But somehow Europe after Maastricht will become more regulated and *this will mean it will take longer* for the Polish economy to adapt to that new climate."

Polish officials expressed concern about balancing the country's sovereignty with what they see as a trend towards foreign policy decisions becoming increasingly centralised in Brussels.

"We are now beginning to enjoy our freedom and independence. A deeper and more integrated Europe will either delay our entry or, when we do finally join the Community, our decision-making powers will be diluted. I suppose we will just have to learn new rules and adapt once again to the new political climate," the official said.

Hungary, in contrast, appears less concerned about any centralising or federalist tendencies emerging from the summit.

"Our place is in Europe. We want to join the Community. We do not underestimate the tasks facing us. If deepening precludes widening, then I would be very worried. However, *the two trends are not* mutually exclusive," a senior Foreign Ministry official said.

Indeed, he said Hungary would be prepared to give up part of its sovereignty. "I am thinking specifically about Europe adopting a common approach to foreign policy. This is good for the Hungarians, because since the collapse of the communist systems and the Warsaw Pact military alliance, the countries of eastern Europe now find themselves in a security vacuum."

Czechoslovakia is equally concerned about this vacuum, which partly explains why it hopes Maastricht will adopt a stronger and more united foreign policy for the entire region. A Foreign Ministry official said: "The end of the Cold War means Europe must come closer together on economic and political union. This is an inevitable and welcome process.

"We have no problems with accepting this. However, the deepening of this process must not preclude any widening."

Mr Hans-Dietrich Genscher, the German foreign minister, said yesterday that eastern Europe needed a successful outcome from the summit.

"If Maastricht leads to a disappointment, that could have negative effects on the European orientation of these countries," he said. "If a disappointing signal goes out from Maastricht, that would certainly raise the danger of nationalistic policies in eastern Europe."

Once Maastricht is over, east European officials believe the Community can no longer find excuses for not formulating a long-term political and security policy towards eastern Europe.

"All it requires is political will," a Polish diplomat said. "We are desperately hoping that the final Maastricht communiqué will make some concrete reference to eastern Europe to confirm that the process of deepening will not be an exclusivist process."

Japanese confident of their preparation

By Stefan Wagstyl in Tokyo

WITH THE 50th anniversary of the attack on Pearl Harbour dominating the news, the European summit is being given little attention in Tokyo.

The library of the Nihon Keizai Shimbun, Japan's daily business newspaper, records just seven references to Maastricht in selected newspapers in the whole of this year. As far as Japanese journalists are concerned the top European story has been the collapse of the financial empire of the late Robert Maxwell.

This is not to say Japanese businessmen, politicians and government officials are uninterested in the integration of the Community. Rather, they are confident they already understand the purpose of integration and have prepared for it in great detail. They see Maastricht as a milestone on a journey which they started some time ago.

Japanese officials and businessmen hope integration, including the plans to establish a common currency and single central bank, will boost economic growth in Europe by promoting greater efficiency.

But they are concerned about the possibility of an increase in protectionist policies in an integrated EC.

"If economic integration succeeds, it will revitalise Europe," says Mr Masaya Fujiwara, a Foreign Ministry official responsible for European affairs. "Our concern is that an integrated Europe should be open to outsiders."

Whatever their doubts, *many* Japanese businessmen have been preparing for integration since the mid-1980s. Japanese investment in Europe soared from \$3.3bn (£1.9bn) in 1986 to \$14bn in 1989, with a further \$13.8bn last year.

The total for 1991 will be lower as a credit squeeze in Japan has cut the supply of funds for such investments.

However, businessmen expect a continued steady flow of investments from smaller groups, including parts suppliers for the big car and electronics manufacturers.

Jacques Delors: Federalism is not a pornographic word

Federalist faithful give Delors a hero's welcome

By Robert Mauthner in Maastricht

MORE than 1,000 flag-waving and foot-stamping European federalists yesterday gave Mr Jacques Delors, the European Commission president, a hero's welcome as he arrived to proclaim his federalist faith in Maastricht on the eve of the summit.

Liberated from the constraints of EC Council and inter-governmental meetings, in which he has to watch every word in case it causes offence *in this or that Community capital* – usually London – Mr Delors treated his captive audience to a brand of passionate rhetoric rarely heard in the arid Brussels environment.

Indeed, many in the sports hall which served as the venue saw his performance as a trial run for the French political hustings where he is expected to make his mark in the not too distant future.

"Federalism is a guideline. It is not a pornographic word. You can speak it out loud," he thundered to the enthusiastic delegates bussed in from such far-flung places as Schleswig-Holstein, southern Italy and even Turkey. "It offers the possibility for ordinary citizens to participate in the common European enterprise."

Mr Delors did not hesitate to take a side-swipe at Britain, though he did not mention the country by name. "We have focused too much on a country that has said 'no. . . no. . . no'." And in an obvious reference to the proba*ble erasure of the notorious* "F" word from the political union treaty due to be concluded tomorrow, the Commission president expressed the hope that the EC leaders, "who will shamefacedly hide the word under the table", will at least maintain their federal aspirations.

Not content with ruffling British feathers on federalism, Mr Delors went on to paint a picture of a Community in sharp contrast to the UK Con*servative party's* view that national governments should remain responsible for social affairs. Stressing that the Community had not been created merely for states and private enterprise, he looked forward to "a Europe of the workers" which would defend the basic human rights of every worker.

Mr Delors, like Mr Ruud Lubbers, the Dutch prime minister and chairman of the European Council, who spoke after him, also underlined the need to make the EC more democratic through an extension of *the European parliament's* powers.

Mr Lubbers was presented with an appeal to the heads of government of the member states by the Union of European Federalists which called for joint legislative decision-making by the European parliament with the Council of Ministers, majority voting as a standard practice, the drafting by the parliament of a federal constitution for Europe and the submission of the European Commission's programme to a vote of confidence by the Parliament.

US distracted by history

By George Graham in Washington

IF THE European Community wanted the US to pay attention to its summit in Maastricht, it should have picked a different date.

Like the Japanese, Americans have been too involved in looking back 50 years to Pearl Harbour to spend much time looking forward to a European union that seems distinctly hypothetical from their side of the Atlantic.

While the Washington Post newspaper said the 12 EC countries were poised for "a bid to transform their bloc into the 21st century's superpower," it dismissed the thought that any grandiose political ideal might underpin the Maastricht summit. "The leaders of the 12 countries meeting in the Netherlands – especially the most powerful ones, Britain, France and Germany – see the economic and political unification of Europe as a way to restrain their rivals," it said.

The New York Times's only news report on the summit yesterday dealt with the pollution of the river Maas, which runs below the windows of the summit meeting room.

However, in an editorial comment the newspaper urged EC leaders to "define their needs narrowly, compromise at important junctures and push unification forward".

For the US administration, the hesitant march towards European union is observed with some distraction.

"It's being watched by the appropriate people with interest, but not with great alarm or concern," commented one official.

Mr James Baker, secretary of state, expressed cautious support for a united Europe in an interview last week with the Wall Street Journal. "The EC can contribute to a strong and stable Europe, and that is very much in the interests of the US," he said.

Mr Baker added a single European market was "something we would like to see completed, carried out to its full range – with the caveat that we've been expressing since it was first advanced as an idea, that we hope it is in fact a process that breaks down trade barriers, that liberalises trade, and does not create any kind of bloc or protectionism".

The US, he said, was quietly supporting the applications for EC membership of some countries but should not lecture the EC on who should be admitted as members, and when.

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Israelis will leave on Friday

Mideast talks to resume in Washington

By Roger Matthews in Washington

THE SECOND stage of Middle East peace talks will open in Washington tomorrow after several weeks of procedural wrangling. Arab and Israeli negotiators finally agreed yesterday.

Israel's three negotiating teams flew into Washington yesterday but are under instructions to remain only until Friday, leaving little opportunity for discussion of substantive issues.

Mr Yitzhak Shamir, Israel's prime minister, refused to allow the talks to open last Wednesday, the date set by the US, in protest at what he saw as American attempts to dictate the pace and content of the peace process. In weekend interviews Mr Shamir also hinted that he might seek early general elections in Israel next year, which could cause a much more substantial delay to further talks.

The Arab teams from Syria, Lebanon and a joint Palestinian-Jordanian delegation agreed during a co-ordinating session on Saturday to be present at the State Department tomorrow.

They had earlier warned that today was not suitable because it marked the fourth anniversary of the start of the Palestinian uprising in the occupied West Bank and Gaza Strip. However, it is believed that if Israel was willing the Arabs would continue negotiations until the start of the Christmas holiday.

At the outset of the three sets of bilateral negotiations at the State Department tomorrow, Israel is expected to insist that after closing this session of talks they should resume either in or close to the Middle East. This is certain to be resisted by the Arab delegations, who welcome the close US involvement in the negotiations and would be happy to continue in Washington.

Israeli officials have hinted in the past few days that new proposals may be tabled this week offering the Palestinians living under occupation greater responsibility for the day-to-day administration of their lives but making no concessions on land.

While there may some Palestinian interest in the proposal, Syria is expected to stick by its insistence that Israel must at the outset concede the principle of exchanging land for peace, as set out in UN Security Council resolutions 242 and 338.

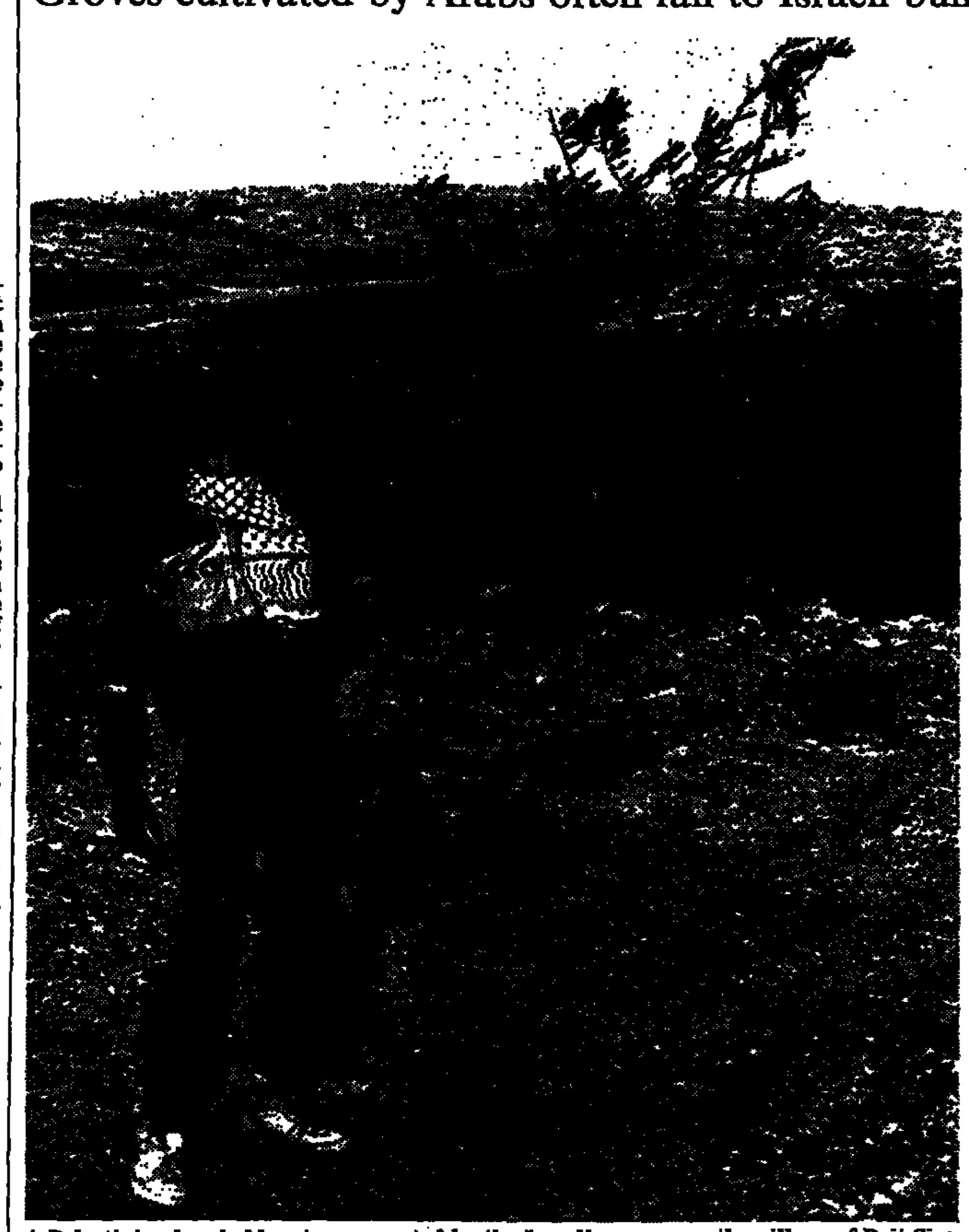
Syrian officials have also said they will not be willing to attend the talks on wider regional issues called for Moscow at the end of January unless Israel gives way on this point.

● Israel's cabinet said yesterday Jewish settlers could stay in houses they occupied in Arab East Jerusalem until the High Court makes a final ruling on the matter, Reuter reports from Jerusalem.

The decision comes despite recommendations from Israel's attorney general and the police, who say the settlers are a security threat.

Olive tree index of Palestinian anger

Groves cultivated by Arabs often fall to Israeli bulldozers, reports **Hugh Carnegy**



A Palestinian boy holds a tree uprooted by the Israeli army near the village of Beit Sira

TWO weeks ago, on November 24, an Israeli army squad came with a digger to a hill overlooking the West Bank village of Beit Sira, drove a track through an olive grove up to the top and cleared a site about the size of a small football pitch for a new military outpost.

Mahmoud Abdullah Samour and Youssef Mohammad Ein Khawi, the villagers who own the land, lost about 30 olive trees in the process.

They probably were not surprised. The frequent destruction of Palestinian-owned olive and fruit trees by the army and Jewish settlers has been one of the less publicised but most bitterly resented tactics used by the Israelis in the course of the intifada, the uprising against Israeli rule that marks its fourth anniversary today.

A couple of months earlier, about 30 trees were cut and bulldozed from an olive grove by the road running past Beit Sira after stones had been thrown from it at army vehicles. Before that, villagers say soldiers and men from the new settlement of Maccabbim, mushrooming across the road, destroyed about 25 trees close by the same spot.

"They came one evening without warning with two army jeeps, a bulldozer and a chain saw. The whole village watched," said Mustafa Taha Abu Safi, whose family owned the trees.

Thirty trees here and there for an area characterised by dozens of far-flung olive groves may not seem like much damage. But over time the numbers stack up, augmented by uprootings running into the thousands to make way for the accelerated programme of settlement and road building that Israel has undertaken in the West Bank and Gaza Strip over the past 18 months.

The Jerusalem Media and Communication Centre, a Palestinian information organisation which has tracked tree destruction on a case-by-case data base, says almost 122,500 trees have been uprooted or cut down since the beginning of 1988, 80 per cent of them olive trees. Some 30,000 have gone this year, double the number in 1990.

The olive is a potent symbol of land and identity to the Palestinians. "Every olive tree feeds one mouth," locals will say. Mohammad Khalil, brother of the Beit Sira Mukhtar, or village head, puts the value to a smallholder in more worldly terms.

Each mature olive tree, he says, yields 1 or 1¼ 18kg drums of oil a year at a price of about 50 Jordanian dinars (£42) a drum. For a farmer losing 30 trees, that represents a loss of some £1,250 a year – more than twice average annual per capita GNP.

A village like Beit Sira can ill afford such losses. Its condition vividly illustrates why the Palestinians of the West Bank feel so squeezed by the 24-year-old Israeli occupation. It is hemmed in by Maccabbim and one of the many new roads cut through the West Bank to allow settlers more secure access to their settlements.

Mr Khalil says the village has lost most of its traditional lands to Maccabbim and the road. "In the 1950s and 1960s we used to plant all the land and no-one from the village worked outside. Now, because there is not enough land for each person to work on, many have to go out to work – mainly in Israel. But many of our men have been in prison and cannot get permits to work in Israel."

So the intifada is fed. The idle young men rebel against the army and the settlers. And the army and the settlers respond – sometimes with guns, but sometimes with bulldozers in the olive groves.

White House may break budget agreement

By George Graham in Washington

THE US administration is prepared to break the hard-won 1990 agreement to curb the rise in the budget deficit, but only if it can do so in a way that will boost the economy without creating panic in financial markets, an administration official said yesterday.

Mr Richard Darman, director of the Office of Management and Budget, said the budget agreement, which imposes tight restrictions on spending increases and tax reductions, "could be modified under certain circumstances, if it were done in a way that promised to increase growth and reduce the deficit."

Mr Darman has for the last week been leading the administration in a delicate pirouette between its desire for a package of tax cuts to stimulate the economy and its reluctance to abandon the discipline of the budget agreement.

Whenever administration officials say the agreement could be changed, US financial markets drive long-term interest rates up because they fear a surge in the budget deficit and a revival of inflation.

Mr Darman said the administration would have to complete its economic package this month in order to begin consultations with congressional leaders at the start of January. President George Bush is due to unveil the package in his State of the Union address at the end of January.

Union Carbide chief charged

An Indian court yesterday ordered the former chairman of US-based Union Carbide, Warren Anderson, to face trial in connection with the 1984 Bhopal gas disaster in which more than 3,800 people died, Reuter reports from Bhopal.

Bhopal chief magistrate Gopal Sharma issued an order saying Mr Anderson "committed an offence of culpable homicide, not amounting to murder, voluntarily causing grievous hurt by dangerous weapons or means... and the commission of such offences with criminal intention or knowledge."

ANC official to resign

Mr Chris Hani, one of the most powerful leaders of the African National Congress (ANC), is to leave his ANC position to become general secretary of the South African Communist party (SACP), Patti Waldmeir reports from Johannesburg.

Cuba trade ban supported

Senior US legislators have rejected suggestions from some of Cuba's neighbours that the 30-year trade embargo against the Caribbean island be lifted, Canute James reports from Miami. They say softening the trade embargo would prolong the life of the administration of President Fidel Castro.

Backing for Thai constitution

Thailand's military-appointed legislative assembly has overwhelmingly approved the country's controversial new constitution, paving the way for elections in March or April, Peter Ungphakorn writes from Bangkok.

US defence group sends up satellite

By Peter John at Cape Canaveral

GENERAL DYNAMICS, the second largest US defence group, has launched its first commercial European satellite.

Eutelsat, the European consortium of telephone companies which operates the satellite, said yesterday that the initial stages of the flight following Saturday's launch had gone smoothly and the satellite was expected to be in commercial use on January 15.

Eutelsat's whose main shareholders are France Telecom, BT of the UK, Telefonica of Spain and Deutsche Bundespost Telekom.

The launch on Saturday at Cape Canaveral, Florida, had a double significance for General Dynamics. Keen to break into the commercial market to offset the effects of a shrinking US defence budget, it suffered a blow this year when its first commercial adventure, placing a Japanese television satellite in orbit, had to be aborted in mid-flight.

The pressure on General Dynamics to recover its standing was increased because Saturday's rocket was a new, untried model. The 156ft craft, costing some Ecu60m (£42.8m) and based on an old intercontinental ballistic missile, is 12ft longer than its predecessor, has a new automatic navigation system and can carry a heavier load. It carried a Telecom satellite built by Aerospatiale of France for Ecu70m.

The satellite was released from its two-stage booster rocket somewhere near the west coast of Africa.

The launch marked a departure for Eutelsat as well. It has always dealt before with the French launcher Ariane.

Once the craft is running, its 16 channels will be used for business-to-business events such as video conferences, telephone links and, principally, television transmission.

Talks raise hopes for Amazonian rainforest project

By Christina Lamb in Rio de Janeiro

AN ambitious $1.5bn (£850m) project to save the Amazonian rainforest may finally begin to take shape as a result of meetings under way in Geneva.

The Brazilian government hopes the discussions between officials from the EC, the World Bank and Group of Seven leading industrial nations will result in the creation of a Rainforest Trust Fund to formalise the project proposed by Germany at the G7 summit last year.

The Amazonian Pilot Project will be the first time that first and third world countries have co-operated on a big environmental programme. It was supposed to be the centrepiece of next year's Earth Summit.

The Brazilian government submitted a programme to the G7 summit in London this summer but, with more pressing international problems on the agenda and member countries in recession, enthusiasm seemed to have dulled. Only $50m was approved, rather than the $250m Brazil was expecting, and meetings to discuss further financing have been postponed until now.

The US and Japan in particular have been reluctant to make commitments.

President Fernando Collor sent an angry letter to all seven heads of state, apparently receiving a reply only from Britain's John Major. He took advantage of a visit last month by Germany's Chancellor Helmut Kohl to lobby, and the resulting pressure from Germany and Britain led to this week's meeting.

To the government's embarrassment, the meeting has coincided with a scandal in Brazil's Health Ministry over the allocation of a massive order of umbrellas and bicycles at highly inflated prices to companies in the minister's home state. Mr Collor had ordered all purchases by the ministry suspended and the minister fled an interview in tears on Saturday when challenged over the issue. This has provoked questions at the Geneva meeting over the wisdom of donating to Brazil.

However Mr Marcos Azambuja, Brazil's deputy foreign minister, said yesterday: "After all the noise we've made we're hoping something will come out of this meeting though nothing radical. Otherwise the programme will be moribund."

Mr Collor has been particularly disappointed by the response of industrialised countries because of the turnaround in Brazilian environmental policy, for which he has received much domestic criticism for pandering to international opinion.

He is facing a storm over a decision last month to mark out an area the size of Portugal as a reserve for the remaining 9,600 Yanomami Indians. The decision, taken despite military resistance, was widely praised abroad but has led to a flood of protests from politicians from the area who say the reserve is too large and will lead to the creation of an independent Yanomami nation, jeopardising national security.

Several court actions have been launched and politicians are threatening to block congressional approval.

New bid to fight global warming

By Frances Williams in Geneva

NEGOTIATORS from over 100 countries will make another attempt over the next two weeks in Geneva to draft a climate change convention designed to combat global warming.

The negotiations, which began last February, need to be completed by April if the convention is to be signed as planned at the United Nations "Earth Summit" in Rio de Janeiro next June.

But the refusal of the US to commit itself to firm targets for stabilising and reducing emissions of "greenhouse gases", mainly carbon dioxide (CO_2), that are heating the earth's atmosphere, continues to cloud the talks.

Almost all other industrialised countries have adopted targets, with the European Community planning to stabilise CO_2 emissions at 1990 levels by the year 2000. The gas is produced by fossil fuel burning, notably in power stations and vehicles.

Countries are also divided over financial aid to developing nations to ensure that their economic development does not increase overall greenhouse gas emissions.

UN officials said last week they were hopeful of concluding a draft treaty by next April in time for the Rio summit. But environmental groups and many scientists fear that, in deference to the US, the final version will be too weak to have much impact on the 2-5 degree Celsius rise in global temperatures predicted for the next century.

This unprecedentedly rapid temperature increase is widely expected to lead to drought and desertification in some regions, more storms and flooding in others, a rise in sea levels, the spread of tropical diseases and the extinction of many species unable to adapt quickly to changing habitats.

The Intergovernmental Panel on Climate Change, set up by the UN in 1988 to review the scientific evidence, said in a report last year that a cut in CO_2 emissions of at least 60 per cent would be needed to stabilise concentrations at present levels.

The US, which accounts for 23 per cent of world CO_2 production, maintains that the link between man-made greenhouse gases and global warming is still not firmly established and that European-style targets would be damagingly costly to implement.

A US Department of Energy report claimed last week that reductions in CO_2 emissions similar to the 20 per cent or so contemplated by some European countries could cost the US economy up to $95bn (£53.6bn) a year and double petrol prices. Other studies, notably a report by the US National Academy of Sciences published last April, say significant reductions could be achieved at little or no cost, mainly through fuel economy measures in buildings and transport.

Libya to try Lockerbie bomb suspects

Gadaffi: terrorism mistake

LIBYA will put on trial two nationals accused by Britain and the US of blowing up a Pan Am airliner over Lockerbie, Scotland, in 1988, Foreign Minister Ibrahim Mohamed Beshari announced yesterday, Reuter reports from Dakar.

His statement went further than Tripoli's previous announcements that a Libyan judge would investigate western charges that the two security agents blew up the airliner, killing 270 people.

A judge questioning the two suspects in the Lockerbie bombing case said they faced the death penalty if convicted by a Libyan court.

Britain rejected Libya's announcement and said its position remained the same despite Mr Beshari's comments. The Foreign Office repeated its demand to Libya to hand over the two men for trial in Britain or the US.

The two countries have threatened reprisals against Libya if it does not hand over the suspects, accused of planting a bomb which destroyed the airliner in mid-flight.

Mr Beshari, in Dakar for an Islamic summit, said Libya rejected US and British demands to hand over the two men because this would be incompatible with Libyan sovereignty.

In Tripoli, investigating judge Ahmed al-Taher al-Zawi yesterday began questioning the suspects, Mr Abdel Baset Ali Mohamed al-Megrahi and Mr Al-Amin Khalifa Fhimah, about allegations they planted explosives aboard the jumbo jet, officials said.

The officials said the judge would later start questioning four Libyans accused of blowing up a French UTA airliner over Niger in 1989.

Libyan leader Muammar Gaddafi told Egypt's semi-official newspaper al-Ahram on Friday there had been no high-level government involvement in either bombing.

Mr Gaddafi also said Libya's support for "terrorist" groups had been a mistake. He said he was cutting links with the Irish Republican Army (IRA) fighting British rule in Northern Ireland, and was reforming the Libyan intelligence service.

German business looks east for the long term

Eastern Europe provides a big potential market but a plethora of problems, reports **David Waller**

THE EUROPEAN MARKET

SINCE the economic collapse of the Soviet Union, Germany has emerged as the main trading partner of the newly liberalised states of eastern Europe.

Although many of their soundings are still tentative, German businessmen are exploring opportunities in eastern markets with characteristic thoroughness. With traditional links to these areas in some cases extending back for generations, companies are interested, above all, in the long-term benefits. "We are convinced that these are not countries for making quick money," says Mr Jürgen Oberg, the main board director at Siemens responsible for eastern Europe, "Only in the long run will your investment pay off."

Mr Oberg says Siemens makes a range of products – particularly power-generation and medical equipment – vital for creating an industrial and social infrastructure for the new democracies. The main problem is financing, he says: joint venture partners do not have easy access to hard currency.

Another problem is the absence of commercial skills. "Under the state system, they distributed what they produced, they did not sell it," he says. "The engineers are well educated, but there are no salesmen at all. They must get used to selling in world markets against international competition."

German companies' investment in the east has been generally restrained. By far the biggest transaction was that of Volkswagen, Europe's largest car maker, which last April announced plans to invest DM1.4bn (£490m) in buying a 70 per cent stake in Skoda, the Czechoslovak state-owned car maker. Last Thursday, VW signalled its confidence in the project by announcing plans to spend DM6bn more in Czechoslovakia over the next five years.

Another big investment was announced less than a fortnight ago, when Siemens, the Munich-based electricals and electronics giant, won a race to acquire control of Skoda Koncern, Pilsen, Czechoslovakia's largest maker of nuclear and conventional power generating equipment. Siemens is thought to be paying $170m (£96m) for its 67 per cent stake.

Last summer, Asea Brown Boveri, the Swedish-Swiss electrical engineering group which handles its east European activities via its large German subsidiary, said it wanted east European sales of $1.5bn by the middle of the decade. It subsequently entered into joint venture agreements in Poland, Hungary, the Soviet Union, Czechoslovakia, and even Yugoslavia. Earlier this year, Linde, the Wiesbaden-based industrial group, announced plans to invest DM150m in Czech gas production facilities.

These operations are unusual because of their size. There has been an overall surge in total east-west joint ventures since 1989, up from fewer than 600 to 15,700 in January this year, according to a recent Deutsche Bank report.

An unspecified majority involve German and Austrian companies. But big German companies are not on the whole rushing to make heavy investments in the east. They are just dipping toes into what could be uncomfortable waters.

"The very largest companies have taken their chances in eastern Germany and are now looking further in the east," says Mr Wolfgang Dambmann, a general manager at Dresdner Bank, Germany's second largest bank, which recently announced plans to open an office in St Petersburg.

He points, however, to the plethora of "missing links", for instance the lack of freely convertible currencies and of freedom to repatriate profits. "German companies are willing to ship goods and products, but generally only under the umbrella of state guarantees. There is no doubt that there is a huge market out there, but there will be no rush to invest until the laws which help you control your investment are in place."

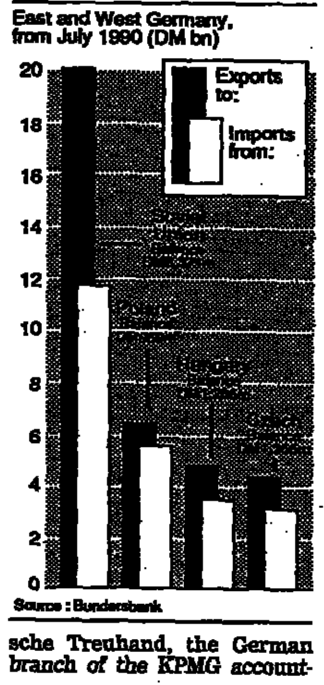
Mr Giesbert Germeroth, a senior partner in KPMG Deutsche Treuhand, the German branch of the KPMG accounting network, says: "The level of inquiries is very high." He adds, however, that most people just want preliminary investigations and valuations. "Spectacular investments have simply not materialised. This is mainly because of the slowness of the privatisation programmes in the east and excessive bureaucracy."

One chief executive of a leading German company relates the chastening experience of making a high-profile purchase of a steel mill in a fledgling eastern democracy. He says he knew it was time to pull out when bundles of scrap metal delivered to the plant contained not metal, but scrap paper. The outside of the bales was metal, but inside were thousands of secret police reports.

These caused some embarrassment when, far from being burnt up in the steel-making process, they were belched out of the chimney and distributed by the wind around the surrounding countryside. The businessmen will be making no further investments in the east.

German trade 1990

East and West Germany, from July 1990 (DM bn)



Source: Bundesbank

INTERNATIONAL NEWS

Gorbachev replaces army chief of staff

By John Lloyd in Moscow

SOVIET President Mikhail Gorbachev has sacked the army chief of staff appointed just after the attempted coup which failed in August – and replaced him with a general with a relatively hardline record.

General Vladimir Lobov's dismissal on "health grounds" was announced immediately after his return from a week in the UK, visiting installations and holding talks with senior officers and politicians.

No hint either of his ill health or of his impending departure from his job was evident during his visit, according to British officials.

The Interfax news agency yesterday quoted sources in the president's office as saying that Gen Lobov, appointed to the post soon after the failed putsch because of his opposition to it, showed "quite conservative views,and his actions no longer answered the needs of an army in the process of transformation".

His replacement is Colonel General Viktor Samsonov, commander of the St Petersburg military district. Though chairman of the (then) Leningrad Commission for the Extraordinary Situation – the local arm of the putschists – he stopped a column of tanks sent to surround the Leningrad Council building at the behest of Mr Anatoly Sobchak, the city's mayor.

However, he has been a fierce critic of the policies of the three independent Baltic republics, especially in relation to their efforts to have the Soviet troops withdrawn from their territories, and he has opposed the formation of an independent Ukrainian army.

A harder line is emerging in senior military circles, as local commanders – especially in the Caucasus – hit back at movements and republican governments which challenge their right to be based in the republics and which nationalise their property.

Bulgaria: More than 20,000 supporters of the ruling Union of Democratic Forces gathered in Sofia at the weekend to support Zhelyu Zhelev's presidential candidature and call for the confiscation of former Communist party property

West 'must avert Soviet disaster'

By Quentin Peel in Bonn

THE WESTERN world urgently needs to agree on a common strategy to prevent a disaster in the Soviet Union, which could collapse into a state of medieval banditry.

This warning was issued at the weekend by Mr Horst Köhler, state secretary in Germany's Finance Ministry and the country's chief international financial negotiator.

He sharply criticised the failure of the Group of Seven industrial countries to agree such a strategy, on top of the short-term one-year debt deferral deal, of which he was one of the leading negotiators in Moscow last month.

Mr Köhler said the G7 had been warned that there would be no money in the budget from January to pay the basic salaries of the Red Army, raising the prospect of armed gangs taking to the streets to feed themselves.

"It is not a matter of money. It is a matter of failing to calculate the full extent of the risk," Mr Köhler said in an interview.

"What will happen in the Soviet Union if the soldiers lose their self-respect? We were told in Moscow that the budget to finance the Red Army will run out in January. We know what will happen from our history, from the Middle Ages. They feed themselves through robbery, like the robber barons."

"We are living on a powder keg," he added, in the most dramatic restatement of German fears in recent months. "Yet nobody is worrying about it enough."

He cited fears of new Chernobyl disasters because of unsafe nuclear power stations. "The British are making a terrible mistake if they think they can sit on their island and escape when another nuclear station blows up on the continent.

"What if the nuclear missile potential falls into many different hands? It will cost us far more to protect ourselves against that."

He said that of the G7 countries, Japan was not prepared to consider any further aid until its political claim for the return of the Kurile Islands was resolved. Yet they were the only wealthy nation with a capital surplus.

"The Americans and the British simply want to stay out of it. They reckon we Germans, with our debt exposure, have got our fingers burnt. As far as the Soviet Union is concerned, the Americans believe they have not got the resources. The British believe – and I say this very critically – that they can let themselves stand back from the Soviet Union.

"I believe that one cannot stand back. I believe that is a terrible mistake. What is happening in the Soviet Union has the potential for disaster which puts everything else in the shade."

Mr Köhler said that the Group of Seven agreement to defer payment of principal on Soviet debt had bought a breathing space, but a long-term concept was urgently needed.

The success of the G7 was in negotiating a proper structure within which debt could be repaid.

As for German exposure, amounting to at least DM35bn ($21.7bn) of insured and uninsured debt on trade, there was no immediate threat either to the state budget or the banking system.

"I have no worries that Germany might get into real difficulties through the debt of the Soviet Union.

"Our bank system is stable, and there is not an additional burden on the capital market."

Thanks to the G7 deal the market reacted calmly when the Vnesheconombank announced unilaterally it was suspending repayment of principal on its commercial debt as well as state-to-state debt. The danger was now in the long term.

Mr Köhler said the west should now be looking for big co-operation projects – for example, with the Soviet space programme – where money could be injected into the system to bolster national pride, rather than simply be given in the form of aid hand-outs.

Cairns Group eyes EC and US

By William Dullforce in Geneva

ANY DEAL between the European Community and the US on subsidised cereals exports would have to be extended to all other farm products exported with the aid of subsidies, Mr Neal Blewett, Australia's trade negotiations minister, said in Geneva yesterday.

The Cairns Group of 14 farm-exporting countries, which Australia leads, would assess the outcome of the EC-US farm talks against its own stated objectives, he added.

Mr Blewett was in Geneva for today's ministerial meeting of the group.

The momentum created at the EC-US summit in The Hague on November 9 – at which President George Bush scaled back US targets for reductions in farm subsidies – appeared to have spent itself, Mr Blewett said.

Yesterday's meeting in Washington between US agriculture secretary Edward Madigan and EC farm commissioner Ray MacSharry was critical for the outcome of the Uruguay Round trade talks.

"We can see the possibility of achieving a truly substantial package overall in the round, but it is problematical if we can realise it. Everything depends on the next 10 days," he added. US-EC differences over farm reform have blocked the talks.

In Washington, Mr Madigan and Mr MacSharry were making yet another attempt to resolve the EC-US deadlock over farm subsidies following inconclusive meetings between the two sides in Brussels and The Hague last week.

EC officials said some narrowing of gaps had been achieved on non-farm issues in The Hague last week, but no progress had been made on farm subsidies.

Mr MacSharry had little room for manoeuvre. To reach a compromise he would have to take risks but positions in the EC Commission and among member states were tight.

Washington is insisting on substantial reductions in the volume of subsidised exports over an initial five-year or six-year period.

Russia imports shock therapy

By John Lloyd in Moscow

THE Russian government, planning to introduce free prices a week from today, has a team of foreign advisers assisting on decrees and measures, many of whom have cut their teeth on the "shock therapy" initiated by the Polish government two years ago.

The best known of these is Professor Jeffrey Sachs, the Harvard professor who advised the first post-communist Polish government and who continues to hold a high profile in calling for aid to Poland and the other east European states.

With his associate Mr David Lipton he has for two months been making trips to Moscow for talks with Mr Egor Gaidar and Mr Alexander Shokhin, the Russian deputy prime ministers in charge of economic reform and social protection.

Prof Sachs, and the other members of the advisory team, are generally in favour of a rapid transition to a market economy.

The foreign advisers team also includes two Anglo-Polish economists, both of whom are also advising the Polish government, though more discreetly: Mr Stanislav Gomulka and Mr Jacek Rostowski, both of whom teach at the London School of Economics.

Also from the LSE is Professor Richard Layard, well known for his work on wages and productivity in the UK, and now advising the Russian government on social policy.

Professor Anders Aslund, a former Swedish diplomat in Moscow whose book on Soviet economic reform is widely quoted, is also an adviser.

Albanian crisis jeopardises food aid

INTERNATIONAL credits to Albania, and admission to the European Bank for Reconstruction and Development (EBRD), could be postponed following the collapse of the coalition government, Mr Gramoz Pashko, the deputy prime minister and minister of the economy, warned at the weekend, writes Judy Dempsey.

Mr Pashko, a founding member of the opposition Democratic Party (DP), said during a visit to London that the crisis could trigger a slide into anarchy. The collapse of the coalition occurred when the DP last week withdrew its support following parliament's refusal to reschedule elections from May to February. However, Mr Pashko is critical of the action by his party, which also wants former communists to be dismissed from key positions.

"Three people died in rioting in Lac [north of Tirana], after crowds tried to raid the warehouses and bakeries," he said. "This is not the time for the DP to withdraw from the government. We have to work together with the communists throughout the winter months in order to feed the people and obtain western assistance."

Mr Pashko, a prominent economist who has been negotiating Albania's membership of the EBRD, said there were now doubts about a $80m loan from the Group of 24 industrial nations, to provide staples for the population.

"If we have no stable government, we will receive no assistance. We have 10 days supply of wheat. The food situation is really desperate," he said.

Mr Yuli Bufi, the prime minister, said on Saturday he would stay on as prime minister to try to restore calm. However, Albanian officials yesterday said they feared young people in the towns and villages would leave the country because of food shortages, growing unemployment and the collapse of stability.

Italy, which has already supplied L80bn ($65.68m) worth of food – and troops, trucks and helicopters to distribute it – sent back thousands of would-be refugees to Albania during the summer.

UK NEWS

Drug pricing needs radical change says consumer body

By Paul Abrahams

THE National Consumer Council today called on the government for radical changes in in the way drugs are priced. It said the dominant concern was the lack of transparency in the way drug pricing is decided.

The council argued that the lack of transparency means the drugs industry can presently manipulate prices, selling some at artificially inflated prices, while others are sold at nearer their real cost.

Since the whole negotiating procedure is carried on in secret it is simply not possible to gauge the truth, the council said in a report published today.

The government is preparing for negotiations next year with the pharmaceuticals industry to set up a new formula for drug pricing. Nearly £3bn was spent on prescription drugs by the NHS in 1990.

The council said the negotiations next year provided an opportunity to create "a new openness and an ability to examine the basis on which prices are established."

The council admitted that arguments put forward by the industry that further price controls could affect investment in new products should be taken seriously. However, it said it wanted to see hard evidence of how costs are currently apportioned so that an independent assessment could be made.

The issue of drug pricing is becoming increasingly acute as the UK's population ages. Between 1977 and 1988, the number of prescriptions written by doctors in England increased by 51m. As much as 96 per cent of that increase was attributable to prescriptions for those who had retired.

The report argued that further cost-containment methods, such as greater use of generic, non-patented drugs, and measures to cut prescription rates would not necessarily harm the UK's domestic pharmaceutical industry.

Editorial comment, Page 12

German demand lifts UK clothing

By Daniel Green

HEAVY DEMAND from Germany pushed UK clothing exports for the first nine months of 1991 to £1.35bn, a 12.9 per cent improvement over the same period in 1990, according to the British Knitting and Clothing Export Council.

Imports rose by 6.1 per cent to £3.1bn, with almost one fifth coming from Hong Kong.

Sales to Germany jumped 38 per cent to £200m, confounding fears that higher personal taxes there might have discouraged buyers.

Ireland remains the UK's leading export market, with Germany second and France third.

The US continued to lose ground. Sales dropped 19 per cent to £77m worth and it is the UK's fifth biggest export market, having been second only four years ago.

Ms Elizabeth Fox at the British Clothing Industry Association said that currency movements and an increasing emphasis on markets in the European Community were behind the switch away from the US. The language barrier was becoming less intimidating, she added.

The fastest growing export market is Spain. It has been singled out by UK manufacturers as a high priority since it joined the EC in 1986. Sales to Spain jumped 45 per cent to £66.5m.

Imports from east Asia show the sharpest gain, although from relatively low levels with the exception of Hong Kong. Indonesia grew 57 per cent to £72m and China by 63 per cent to £75m.

The real figure from China is much higher. Many Chinese clothes are labelled has having been made in Hong Kong.

- Wool textile exports fell 6.2 per cent in October to £42.7m, compared with the previous year, according to the National Wool Textile Export Corporation.

The total for the first 10 months of 1991 is £404.8m, down 20 per cent from 1990.

Much of the decline is the result of a sharp fall in wool prices.

Sales to EC countries fell 13 per cent, compared with a decrease of 22 per cent for the rest of the world.

Colin Beere

A steam railway in south England is to be auctioned in London today, with an estimate of £550,000. The railway at Isfield in East Sussex includes 1½ miles of track, the original ticket office and waiting room, two steam engines and rolling stock, and the station master's house. Isfield station opened in 1858, closing in 1969.

Economic modelling initiative

By Peter Marsh, Economics Staff

THE Treasury and the Bank of England are to be invited to pool some of their work in economic forecasting with academic institutions, in a bid to improve accuracy and increase value for money.

The initiative is being planned by the Economic and Social Research Council, the main government body organising academic research in economic modelling, which uses computers to link economic variables and predict trends.

Some economists believe that the Treasury and the Bank could gain better results if they made more efforts to link up with academics. Both the Treasury and the Bank employ large teams to work on modelling, but rarely talk to outsiders.

While the Treasury publishes twice a year economic projections based partly on its model, the Bank keeps its forecasts secret. The Bank believes it can advise the Treasury more effectively on economic policy if its theories about economic trends remain private.

Both institutions also argue that because much of their work on forecasting is tied to official policies in areas such as interest rates and exchange rates, publication of more details related to modelling would be against the government's interests.

Small businesses seek action to speed up late payment of debts

By Charles Batchelor

A NEW campaign to end the late payment of business debts is being launched today (Monday). The newly formed Right to Interest Group seeks to bring in new legislation which will give suppliers the right to charge interest on unpaid invoices.

Businesses in England and Wales have the worst record in Europe for paying their bills on time, according to two debt collection groups, Dun & Bradstreet and Intrum Justitia. Suppliers wait on average 51 days for payment after the date on which their bills are due to be settled.

The 51 days that British companies must wait for payment - on top of the 30 day credit terms normal in most contracts – compares with 34 days in Italy, 28 days in France, 22 days in the Netherlands and Denmark and 18 days in Germany.

Previous campaigns backed by small business lobby groups to bring in legislation have come to nothing. The government talked out a private member's bill introduced with the back of the Forum of Private Business in February 1990.

But there are signs of growing interest from the debt collection agencies and the banks.

The latest campaign is backed by Dun & Bradstreet and Intrum Justitia while Lord Alexander, chairman of National Westminster Bank, said last month that legislation might be needed.

The Forum of Private Business, which is backing the present campaign, hopes NatWest and possibly one of the other large clearing banks will back its latest efforts.

The forum is also seeking the support of all three main political parties in the run-up to the general election.

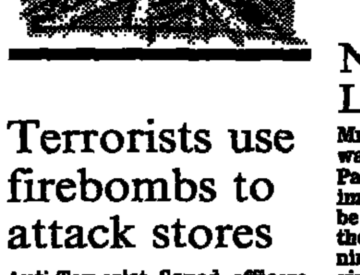
Small businesses are particularly hard hit by customers delaying settlement of their debts. The survival of nearly one in five privately owned businesses is under threat because of late payment, according to a report by the Confederation of British Industry and Cork Gully, insolvency specialists, published last January.

The amounts these businesses were owed rose from £57bn to £145bn, a doubling real terms, while the amounts they owed rose from £44bn to £75bn, an increase in real terms of only 25 per cent, according to the forum.

The government has refused to back legislation arguing that a voluntary code of practice would be more effective.

However, only 5 per cent of businesses were aware of the code, Dun & Bradstreet said.

BRITAIN IN BRIEF



Terrorists use firebombs to attack stores

Anti-Terrorist Squad officers are investigating a series of firebomb attacks in the north of England. Forensic experts were sifting through damage caused by fires at nine venues in Blackpool, including the town hall and the North Pier, and four stores in Manchester's Arndale Centre. No-one was injured.

BR plans to reopen tunnel

British Rail hopes to re-open both tracks of the Severn Tunnel which links London and south Wales to passenger trains early today after a rail crash on Saturday in which more than 100 passengers were injured. The four-mile tunnel serves fast InterCity passenger trains and also carries local trains between south Wales and southern England. Editorial comment, Page 12

Nellist attacks Labour party

Mr Dave Nellist, the MP who was expelled from the Labour Party at the weekend, said the impact of his expulsion would be felt in the damage done to the party's prospects of winning neighbouring Tory marginals, as well as in his own constituency. Mr Nellist sits for Coventry south-east in the midlands of England.

ICI wins court ruling on tax

Imperial Chemical Industries has won a court ruling against the Inland Revenue on a claim for tax relief worth about £4m. The judge ruled that losses on a holding company with most of its subsidiaries based overseas were eligible for consortium tax relief.

Howard stands by policy

Mr Michael Howard, employment secretary, has indicated on the eve of the Maastricht summit that the government will stand by its hardline position on European Community social legislation. He said he saw no reason for extending the scope of qualified majority voting in the social field.

Deer population causes concern

The government may seek legal powers to order Scottish landowners to reduce numbers of red deer on their estates to cut down the burgeoning deer population. The number of red deer is more than 300,000.

End to national pay bargaining

The EETPU electricians, the union with the largest number of members in electricity supply, has authorised negotiators to hold separate talks on pay with each of the industry's 20 companies, signalling its acceptance that national bargaining is ending.

Union calls for pensions law

The GMB general union has urged the government to introduce legislation giving workers the right of equal representation with their employers on the boards of trustees of pension funds and their investment committees.

Publishing house is sold

Weidenfeld and Nicolson, the publishing company formed in 1949 by George, now Lord, Weidenfeld has been acquired by Orion Books, a newly established publishing venture launched by Mr Anthony Cheetham, founder of Century Publishing.

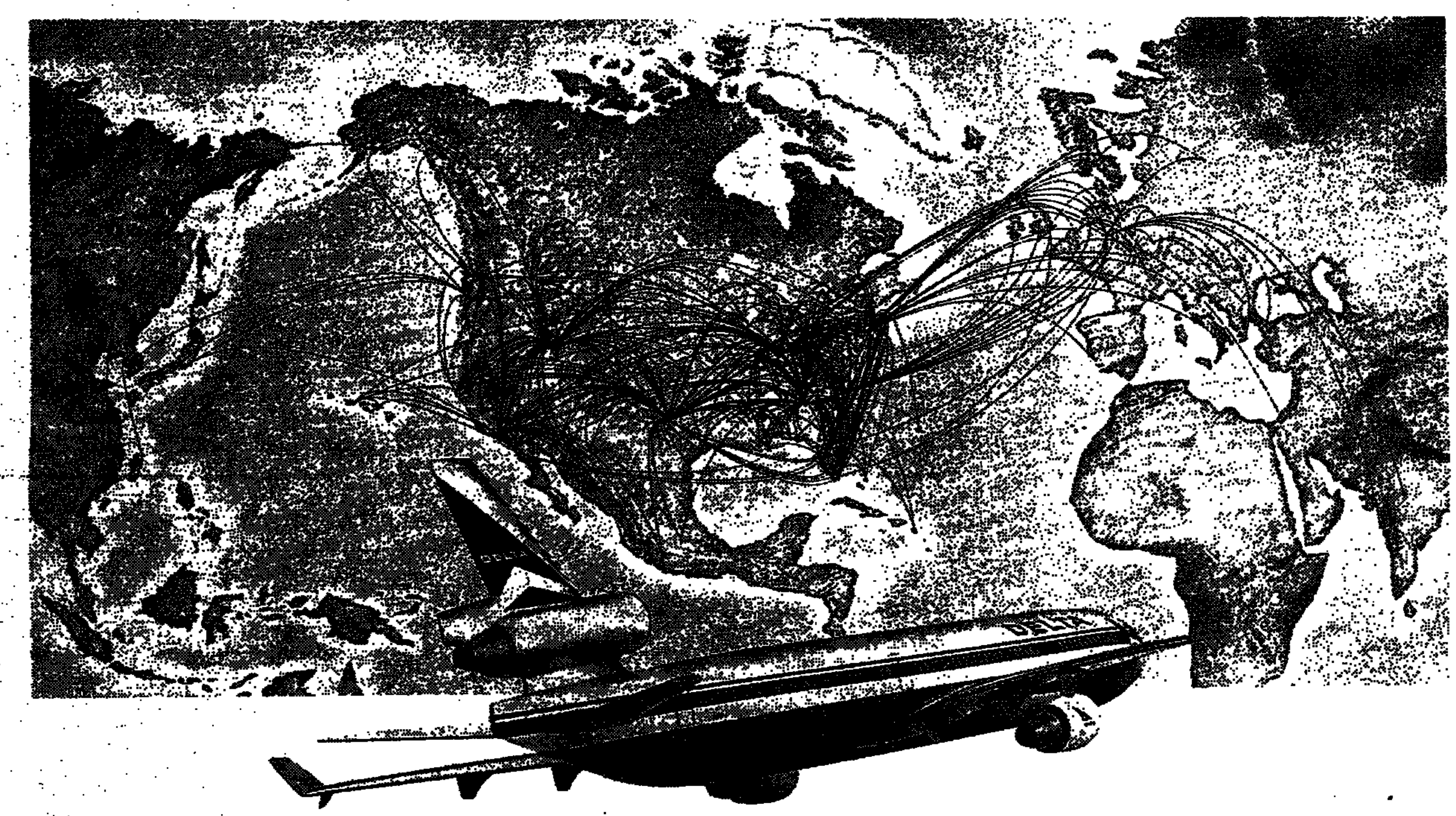
Dame Judith Hart dies

Baroness Hart of South Lanark, formerly Dame Judith Hart, former chairman of the Labour Party and a cabinet minister during the Wilson administration, has died. She was 67. She is most widely remembered for being Minister of Overseas Development.

Albanian crisis jeopardises food aid

Dame Judith Hart dies

Welcome to the new world of Delta.



From left, Delta Flight Attendant Bonita Caringola, First Officer Timothy Therrell, Captain Larry Bacon and Flight Attendant Stephanie Allen.

Now that Delta Air Lines has begun greatly expanded operations across Europe, the Middle East and Asia, the world has become smaller, and the atmosphere warmer.

With new transatlantic nonstops and a European hub in Frankfurt, Delta now flies from Austria, Belgium, Czechoslovakia, Denmark, England, Finland, France, Germany, Greece, Hungary, India, Ireland, Israel, Italy, the Netherlands, Norway, Poland, Portugal, Romania, the Soviet Union, Sweden, Switzerland and Turkey.

Wherever we fly, Delta is dedicated to bringing travellers the best service in the sky. Service that's more convenient, and gives you more travel choices. Tendered with the special warmth and professionalism the people of Delta are known for.

First across the U.S.A., first around the world.

With Delta, you enjoy the convenience of flying to any of over 240 U.S. destinations with one ticket, on one airline system.

And you have more travel choices, because the Delta network serves more cities within the U.S. than any other airline. In fact, Delta's system is first in flights worldwide, with more than 4800 flights a day to over 300 cities in 33 countries around the globe.

A few other firsts.

As important as schedule and convenience are to travellers, they're just part of the reason for you to choose to fly with us.

Delta has the youngest and most modern commercial aviation fleet of its size in the world. As well as one of the most generous frequent flyer programmes. And our emphasis on service has earned Delta the best record of passenger satisfaction among major U.S. airlines for 17 straight years.*

Have your Travel Agent book you on Delta. Or call us direct.

And let us welcome you to Delta's world.

DELTA AIR LINES
We Love To Fly And It Shows.®

*Based on consumer complaint statistics compiled by the U.S. Department of Transportation

Ambitious Stena sails on a voyage to nowhere

Richard Tomkins reports on how the takeover of the British ferry operator has run aground

THE voyage to nowhere, they call it in the ferry industry. What they mean is a return trip that people take for the fun of it without bothering to get off at the other end. But the phrase has become a metaphor for the acquisition of Sealink, the UK's second-biggest ferry operator, by Stena Line of Sweden.

Barely 18 months after the Swedish company's takeover at the end of one of the longest bid battles in stock market history, the acquisition has gone disastrously wrong.

Sealink has turned into a black hole – its losses seemingly out of control and its Swedish parent threatening to close it unless employees agree to drastic cost-cutting plans by the end of the month.

According to Stena Line, Sealink's labour costs are the root cause of the crisis: too many people doing too little work for too much money.

Yet there is a puzzling aspect to the affair. Sealink was making good profits before the Stena Line takeover. So, what happened to push it into such a desperate plight?

Overmanning may be part of answer; but the rest of it lies in the story of how a family dynasty's ambitions have brought Sealink and its publicly quoted Swedish parent company to their knees.

Stena Line, although quoted on the Swedish stock market, enjoys only limited independence. Some 60 per cent of its shares are controlled by other companies in the Stena group, and these, in turn, are controlled by the Olsson family.

The Stena group's founder, Mr Sten A. Olsson, is the stuff of which business legends are made. Now 75, he was born to a humble fishing family, but by the age of 23 had begun building what was to become Sweden's biggest scrap metal company. In 1961 a brush with the authorities almost blighted his career when he was convicted on 23 counts of supplying strategically important metals to the eastern bloc. But aides say the convictions were made on a technicality, and he received a royal pardon.

Even before that incident, Mr Sten Olsson had decided to diversify out of metals. Like his father and grandfather before him, his hagiographers say, he had felt the call of the sea. The Stena group – and with it, Stena Line – was the product of his expansion into the shipping industry.

The unenviable task of following in a famous father's footsteps fell to Mr Dan Sten Olsson, now 44. By 1983, he had started taking over the reigns of power, and Stena Line was on its way to becoming the jewel in the Stena crown.

Starting as a simple ferry operator on the Baltic Sea, Stena Line had developed the cruise-ferry concept: the idea that well-appointed vessels with on-board gambling and entertainment, good restaurants and duty-free liquor could persuade people to make ferry trips not just to get from A to B, but for pleasure.

Passenger numbers and profits soared, and in 1988 the Olssons floated the company on the stock market. But, with the Baltic's growth potential approaching exhaustion, Stena Line needed to turn elsewhere.

Sealink, the privatised UK ferry operator owned by Bermuda-based Sea Containers, looked an irresistible target. It was in the business Stena Line knew best, and Mr Dan Sten Olsson believed it had big development potential. The acquisition would also give Stena Line the title of the world's biggest ferry operator.

In May 1989, Stena AB – Stena Line's holding company – joined with Tiphook, the UK container rental group, to launch a break-up bid for Sea Containers. But Mr James Sherwood, Sea Containers' president, used all the means at his disposal to raise the price.

A year passed before a deal was done; and, at the end of it, Stena paid $570m in cash (then equivalent to £350m) for Sealink, with Sea Containers retaining the profitable Hoverspeed and Isle of Wight ferry operations for itself.

Did ambition get the better of Stena's judgment in paying what it did? Simple arithmetic suggests as much. Sealink's trading profits were £32m in the last full year before the takeover. But, after deducting profits of £10m for the Isle of Wight ferries and £4m for Hoverspeed, all that remained to Stena was £18m – barely enough to cover even half the cost of servicing £350m-worth of debt.

"Of course they paid too much for it: there is no doubt about that," says a Swedish stock market analyst.

"They got carried away with it. It brought them big publicity, it put them on the front page of the FT and, in the end, they simply couldn't back off. It lies in human nature that you can't walk away from a deal once you become so involved in it."

The £350m debt burden was only the beginning of Sealink's difficulties. Once in control, Stena set about trying to realise Sealink's potential with a two-pronged strategy: a £178m investment in upgrading and expanding the fleet, and an attack on labour costs through the cutting of 850 jobs.

The job cuts were uncontroversial. Sealink, unlike its biggest rival, P&O European Ferries, had never properly got to grips with its labour costs while part of Sea Containers.

The investment strategy, however, brought about fundamental disagreements between Sealink's directors and the company's new owners. Former directors say Stena Line was obsessed with the idea of introducing its cruise-ferry concept to Britain in the belief that a vast leisure market was lying untapped.

"There was an amazing assumption by the Swedes that what had worked in Sweden would work over here," says Mr Christopher Garnett, former head of Sealink's European sector.

"We tried to tell them that the British weren't into this thing of great day trips on ferries and having meals on board because, unfortunately, when some passengers have had too much to drink they cause offence to other passengers, whereas this doesn't seem to happen in Sweden.

"And of course, in Britain you don't have these enormous tax differentials between what you pay for a drink in Sweden and what you pay on a ferry.

"In Gothenburg, Stena will say that 50 per cent of the population will take a trip on one of its ferries every year because they see themselves as being in competition with the city's hotels and restaurants for people's leisure time. I don't think in your wildest dreams you would say that was so in the UK: but that was the belief they had."

As the disagreements grew, Stena Line's directors were eased out or left of their own accord. Mr Paul Kilduff, finance director, became head of group strategy at National Westminster Bank, and several others were snapped up by Sealink's foes: Mr Garnett to become commercial director of Eurotunnel, the Channel tunnel operator; Mr Mike Aiken to become head of Sea Containers' ferries division; and Mr Malcolm Hewitt to join Air UK, the airline, as sales and marketing director.

The Sealink helm, meanwhile, was taken by Stena Line's chief executive, Mr Lars-Erik Ottosson, who set about boosting capacity in line with forecast passenger growth. By spring this year, Sealink had enough new and refurbished vessels in place to cater for a big increase in its market. The trouble was, the passengers never turned up.

That would have mattered less if the company had made better progress in cutting its costs. But here, too, the company turned out to have been over-optimistic – this time, about the speed with which it could reach new crewing agreements with the unions.

By now, Sealink was heading for financial disaster. Passenger revenues were way below forecasts and wage costs way above them. On top of that, the company was having to service big debts – not just the £350m of acquisition costs, but the £170m borrowed to cater for growth that never happened.

Now, corporate strategy has gone through another U-turn. Stena Line has installed Mr Gareth Cooper as its new managing director at Sealink. Under him, the expansion plan has been ditched in favour of survival.

At Stena Line's Gothenburg headquarters, however, there are few regrets. Back in his office overlooking Stena's vessels in the harbour, Mr Ottosson says £350m was a price well worth paying to get a foothold in the EC with a well-located network.

"Yes, it was a lot of money," says Mr Ottosson. "But it was much cheaper to buy Sealink than to start new routes ourselves. Just one ship today can cost £100m second-hand, so £350m is a lot, or it is not: it depends how you look at it."

All that business about the cruise-ferry concept was greatly exaggerated, says Mr Ottosson. The new owners' top priority had always been Sealink's costs.

But if that was the top priority, why did Stena launch a £170m investment programme before cost-cutting had even begun? It was a necessary gesture to win employees' confidence, says Mr Ottosson. "It's very difficult to get people to believe that there's a future after the cost-cutting process if they don't see a good future with good vessels."

Whatever the explanation, both Sealink and its parent are now beleaguered. Sealink's losses are forecast to plunge Stena Line into a deficit of SKr300m (£30m) for the year ending December 31; net debt even before the current year's troubles began was five times shareholders' funds; and related companies in the Stena empire have just had to inject SKr965m worth of loans into the group to stave off the threat of a liquidity crisis.

The cash injection should get Stena Line through the winter. After that, much will depend on prospects of a good season for Sealink next year: but with recession lingering on, there are few convincing signs of that.

Would the Olssons close Sealink? To let it go now would mean an appalling loss of face. But it is unclear whether further refinancing is possible. A Swedish stockbroker says: "The prevailing view is that there are a lot of assets in the Olsson family companies, but that there are a lot of debts, too."

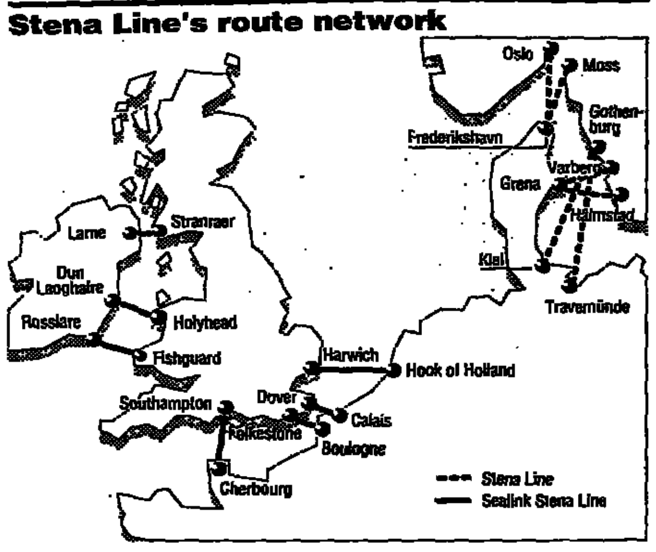
A rights issue, meanwhile, is out of the question: too many of the minority shareholders have come to suspect that Stena Line is run more for the benefit of the private Olsson enterprises than in the shareholders' interests.

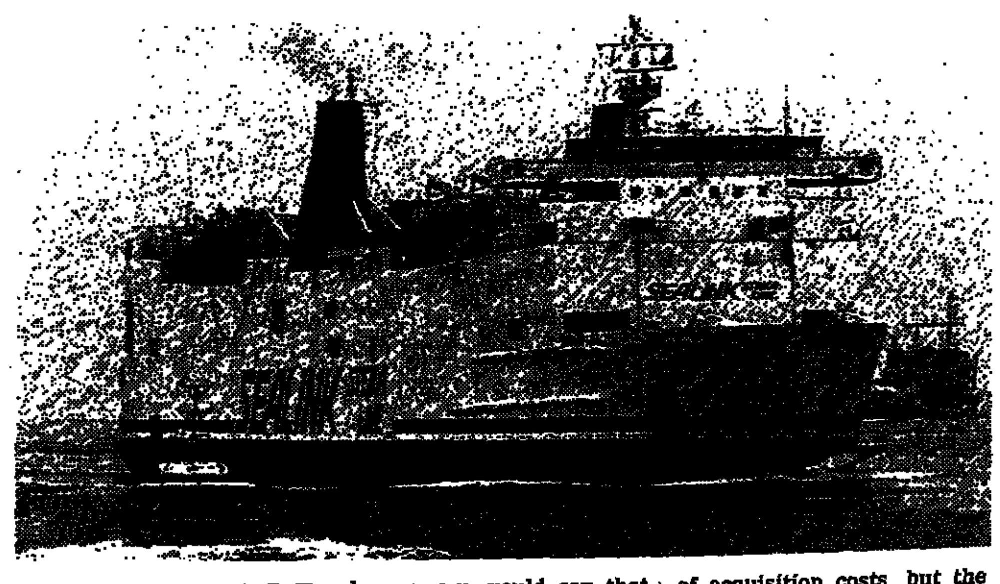
At Stena Line's last annual meeting, the minority shareholders expressed this concern by forcing the appointment of independent auditors to investigate whether Stena Line had suffered financially as a result of inter-company dealings with other companies in the Olsson's private ownership – for example, through Stena Line's payment of a $10m "finder's fee" to the private Stena group for acting as an intermediary in the Sealink takeover.

Mr Ottosson looks relaxed. All this is academic, he says. The latest cash injection has given Stena Line all the money it needs to overcome its difficulties. By next year Sealink will be moving back into profit, and by 1993 shareholders will be queuing up for a rights issue. "Five years from now, Sealink will be seen as a good buy, provided we come through the process of cutting costs and improving performance – which we will, I am pretty sure of that."

For now, however, all that seems clear is that a long, cruel winter lies ahead for Sealink and its employees.

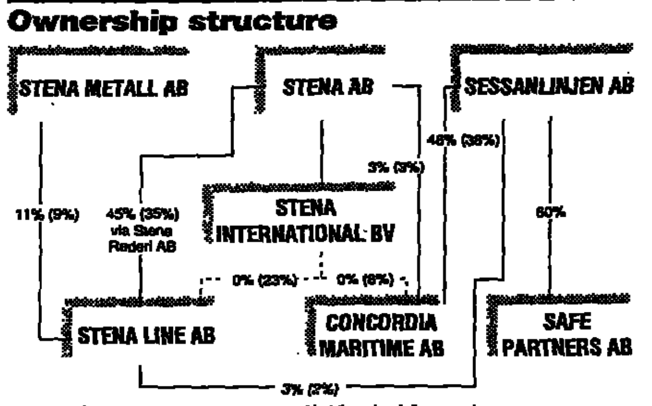
Stena Line's route network





Dan Sten Olsson: optimistic

Ownership structure



The figures in brackets relate to the percentual holding after full conversion

PUBLIC NOTICES

IN PARLIAMENT
SESSION 1991-92

ALLIANCE & LEICESTER (GIROBANK)

NOTICE IS HEREBY GIVEN that application is being made to Parliament in the present Session by the Alliance & Leicester Building Society for an Act under the above name or short title for purposes of which the following is a concise summary:-

To provide for the vesting in Alliance & Leicester of such part of the undertaking of Girobank plc as is represented by all accounts of customers of Girobank plc who are individuals, not being accounts facilitating the operation of any trade or business or any unincorporated association ("the personal bank"); for such vesting to take place on a date or dates to be determined by the directors of Alliance & Leicester in accordance with a scheme agreed after consultation with the Bank of England and the Building Societies Commission in relation to the whole or any part of the personal bank and all property, rights and liabilities of, or held by, Girobank plc in connection with the personal bank; the validation of references in deeds and other instruments; provision for membership of Alliance & Leicester; the saving of contracts, statutory provisions and other documents, bailment, securities and proceedings and the provisions of the Bankers' Books Evidence Act 1879; the continuance of accounts; saving for the powers of Alliance & Leicester, Girobank or either of them to deal in any way with the assets and liabilities of their respective businesses and to carry on or discontinue either or both those businesses; and to make further provision supplementary to or consequential upon the purposes aforesaid, including the application of the intended Act to Scotland and Northern Ireland.

On and after 4th December 1991 a copy of the Bill for the intended Act may be inspected and copies obtained at the price of 50p each at the head office of Alliance & Leicester at 49 Park Lane, London; at the Alliance & Leicester Building Society, Scottish Administration Centre, Broughton, Edinburgh; at the Alliance & Leicester Building Society, Regional Office, 63 Royal Avenue, Belfast; and at the offices of the undermentioned Secretary and Parliamentary Agents.

Objection to the Bill may be made by depositing a Petition against it. If the Bill originates in the House of Commons the latest date for depositing such a Petition in the Private Bill Office of that House will be 30th January 1992; if it originates in the House of the Lords the latest date for depositing such a Petition in the office of the Clerk of the Parliaments in that House will be 6th February 1992. Further information may be obtained from the Private Bill Office of the House of Commons, the office of the Clerk of the Parliaments, House of Lords or the undermentioned Parliamentary Agents.

DATED 2nd December 1991

I. HEPPLEWHITE,
Alliance & Leicester Building Society,
Hove Park,
Hove,
East Sussex, BN3 7AZ
Secretary

SHERWOOD & CO.,
35 Great Peter Street,
Westminster
London SW1P 3LR
Parliamentary Agents

LEGAL NOTICE

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

In the Matter of the NEW YORK AGENCY
of the
BANK OF CREDIT AND COMMERCE INTERNATIONAL, S.A.

NOTICE OF CLAIMS PROCESS AND RELATED BAR DATE FOR FILING PROOFS OF CLAIM

NOTICE IS HEREBY GIVEN THAT the Superintendent of Banks of the State of New York (the "Superintendent"), pursuant to Section 620 of the Banking Law of the State of New York (the "New York Banking Law"), has made December 9, 1991 the first date on which claims against the New York Agency (the "Agency") of the Bank of Credit and Commerce International, S.A. ("BCCI S.A."), may be filed in accordance with the process for determining and paying claims against the Agency prescribed by Article XIII of the New York Banking Law (the "Claims Process"). **THE LAST DATE AND TIME WHEN PERSONS MAY FILE CLAIMS AGAINST THE AGENCY IS MARCH 27, 1992, AT 5:00 P.M., EASTERN STANDARD TIME (THE "BAR DATE").** Only claims filed on or before the Bar Date will be considered by the Superintendent in accordance with the provisions of Article XIII of the New York Banking Law.

IF YOU ARE ENTITLED TO FILE A PROOF OF CLAIM BUT FAIL TO DO SO IN THE MANNER PRESCRIBED ON OR BEFORE THE BAR DATE STATED ABOVE, YOUR CLAIM WILL BE FOREVER BARRED, YOU WILL NOT BE ENTITLED TO ANY DISTRIBUTION ON THAT CLAIM AND YOU WILL RECEIVE NO FURTHER NOTICES REGARDING YOUR CLAIM. All claims against the Agency of whatever character, whether secured or unsecured, liquidated or unliquidated, fixed or contingent, must be presented in the Claims Process.

1. **GENERAL**

The Superintendent took possession of the business and property of the Agency on July 5, 1991 pursuant to Section 606 of the New York Banking Law and is currently taking steps to effect the complete liquidation of the Agency.

2. **WHO MAY FILE**

Any person having a claim against the Agency, or such person's duly appointed and authorized personal or legal representative, may file a Proof of Claim in respect of each claim arising out of a distinct transaction or series of transactions with the Agency, regardless of when such claim arose or the nature or type of such claim (subject to Section 3 below). Where more than one person is interested in or is making a claim, then all must complete and file a Proof of Claim together. All claimants must file a Proof of Claim in the Claims Process, even if a claim was previously made known in some other way to the Agency or to New York State Banking Department staff.

3. **WHO MAY NOT FILE**

A person may *not* file a Proof of Claim in respect of any of the following:

(a) a claim arising out of transactions with offices of BCCI S.A. other than the Agency or out of transactions with entities affiliated with BCCI S.A. in any other way;

(b) a claim not representing an enforceable legal obligation against the Agency if the Agency were a separate and independent legal entity; or

(c) a claim representing an amount due or other liability to another office or branch of, or wholly owned (except for a nominal number of directors' shares, if any) subsidiary of, BCCI S.A.

Persons having a claim that falls into categories (a), (b) or (c) above may need to pursue it in separate and different proceedings *not* administered by the Superintendent and should contact Brian Smouha, Commissaire, BCCI, S.A., 25 Boulevard Royal, 2449 Luxembourg, for further information.

4. **PROOF OF CLAIM REQUIREMENTS: PRIORITY OF PAYMENT ASSERTIONS**

A person entitled to file a claim against the Agency must complete and file a Proof of Claim in the form adopted by the Superintendent, together with all supporting documentation specified in the instructions thereto, in respect of each claim arising from a distinct transaction or series of transactions with the Agency. All persons having claims for priority of payment shall make demand in writing for priority in the place indicated in the Proof of Claim.

If this notice was received by mail, it is accompanied by a blank Proof of Claim and the instructions relating thereto. Persons receiving this notice by publication or any other means may obtain a Proof of Claim and the instructions relating thereto by writing to the New York State Banking Department, c/o BCCI S.A., 530 Fifth Avenue, Seventh Floor, New York, New York 10036, Attention: Request for Proof of Claim. Persons requiring additional Proofs of Claim must make such copies for themselves. All Proofs of Claim are required to be prepared in the English language.

5. **DEADLINE FOR FILING: WHERE TO FILE**

The Bar Date, the deadline for filing all Proofs of Claim, is 5:00 p.m., Eastern Standard Time, on March 27, 1992. Each Proof of Claim must be either mailed or delivered to the following address:

Salvatore Morabito
Special Deputy Superintendent
New York State Banking Department
c/o BCCI S.A.
530 Fifth Avenue
Seventh Floor
New York, New York 10036

If mailed, a Proof of Claim must be postmarked on or before March 21, 1992. If delivered, a Proof of Claim must be received by the Special Deputy Superintendent or his staff on or before the Bar Date. NO PROOF OF CLAIM IS FILED UNTIL IT IS RECEIVED BY THE SPECIAL DEPUTY SUPERINTENDENT OR HIS STAFF.

6. **FURTHER INFORMATION**

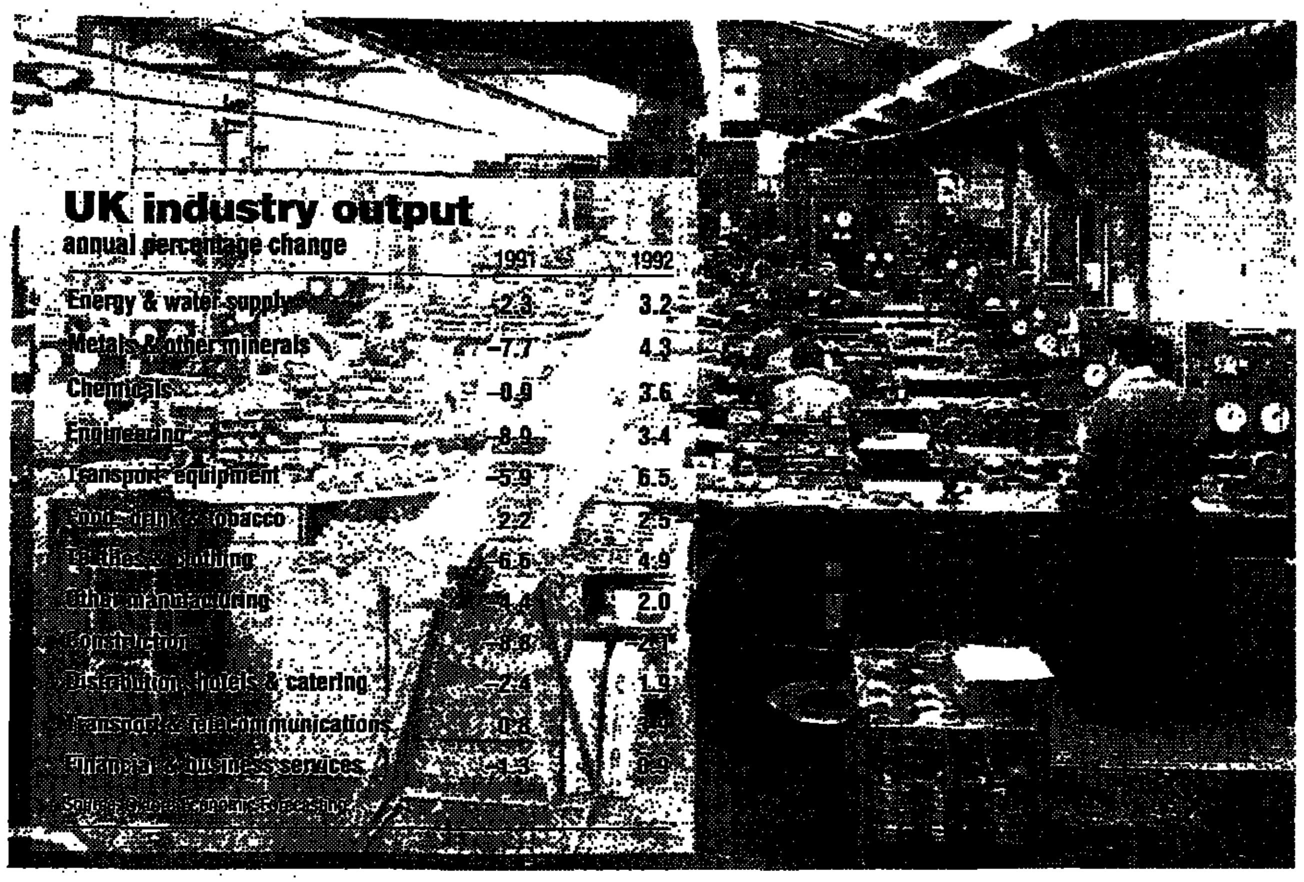
If you have questions about this notice, or if you desire a Proof of Claim, you may contact by telephone either Salvatore Morabito at (212) 789-8620 or Harry J. Morpurgo at (212) 789-8661 during the hours of 9:00 a.m. to 5:00 p.m., Monday through Friday, or write to Mr. Morabito at the address given above. ALL OTHER QUESTIONS, SUCH AS WHETHER YOU SHOULD FILE A PROOF OF CLAIM OR TAKE ANY OTHER ACTION WITH RESPECT TO YOUR CLAIM, SHOULD BE DIRECTED TO YOUR ATTORNEY.

Dated: New York, New York
December 9, 1991

CLEARY, GOTTLIEB, STEEN & HAMILTON
Attorneys for the Superintendent of
Banks of the State of New York
One Liberty Plaza
New York, New York 10006
(212) 225-2000

Budgeting for recovery

Peter Marsh offers a word of advice on the state of the economy to executives drawing up corporate financial plans for the coming year



NEXT year is likely to be difficult for many UK companies. But how difficult?

Here is a checklist of topics to help busy executives as they put the final touches to their budgets for 1992.

UK BACKGROUND
A slow recovery is in prospect from the second deepest recession since the second world war. After nine years of growth, the economy is likely to shrink by about 2 per cent this year but turn up in 1992. Economists have a wide range of projections for next year, foreseeing growth of between zero and around 2.7 per cent.

On the negative side, a combination of large payments on debts run up during the late-1980s economic boom, weak consumer and business confidence and high real interest rates could depress economic activity for some months. The run-up to the general election could also have a further unsettling effect, holding back growth. More positively, the optimists point to a boost to economic activity from lower inflation and continuing good export growth.

WORLD ECONOMIC GROWTH
Total output in the leading industrialised nations is expected to grow in 1992 by just over 2 per cent. This is after sluggish expansion this year (the worst for the world economy since 1982) of about 1 per cent. But there are question marks over the two biggest export markets for the UK: in the US, demand is likely to be depressed by a weak recovery from the recession and in Germany, a slowdown can be expected after the post-unification surge. Overall, the optimists reckon exports could grow by 4-5 per cent.

CONSUMER SPENDING
This accounts for two-thirds of UK gross domestic product and has a big impact on the health of many important sectors, especially retailing. This year, consumer spending is expected to fall by 1 per cent, after the large yearly increases in the 1980s boom. Next year, consumers are expected to spend 1.5-2 per cent more, as the recovery gains strength.

UNEMPLOYMENT
Another worry for consumers. Many have cut their spending, fearing they might soon join the ranks of the jobless. In the year to October, unemployment climbed by nearly 900,000 to just under 2.5m. As a consequence of rising unemployment and a drop in the rate of increase in earnings, income growth has slowed, further braking consumer demand. Next year, real disposable income is likely to increase by just 1 per cent, according to Oxford Economic Forecasting, after 3 per cent growth in 1990 and little change this year.

INVESTMENT
Companies in internationally traded areas such as manufactured goods will have to dig into profits soon to restore investment levels and so keep up with competitors. In 1991, manufacturing investment is likely to show a fall of some 16 per cent. That will show up soon in outdated technology, plant and buildings. Even after the large rises in capital spending in the late 1980s, this means that many manufacturing companies will have to spend substantially more in this area in 1992 and 1993 if they are going to survive against better equipped businesses overseas.

CREDIT
This is the bugbear for the consumer in 1992. Many people are burdened by the high debts taken on during the 1980s, especially on mortgages. The savings ratio (the proportion of disposable income being saved) climbed to nearly 11 per cent at the end of last year, and so far has come down only to a little over 10 per cent. It will decline only slowly next year, reaching about 9 per cent in a year.

EARNINGS
Here the picture is poor for the consumer, but good from an industrial point of view. The slowdown in wage growth and a more adaptable workforce than was the case in the last recession may encourage investment by the corporate sector, giving a general economic boost. Underlying earnings growth across the economy has come down sharply from an annual 9¾ per cent in December 1990 to 7¾ per cent in September. This trend may continue into next year, with some analysts expecting the figure to drop to around 5 per cent by mid-1992. Unit wage costs in manufacturing are starting to come down rapidly; the Treasury predicts this figure will show a 2 per cent decline next year. These trends, according to the more bullish pundits, will spur industrialists into increasing investments and lead to an overall economic boost.

PRODUCTIVITY
Companies in manufacturing are likely to gain from productivity increases arising from higher production (assuming the economy picks up) with smaller work forces. According to stockbroker, James Capel, in the year to mid-1991 productivity in manufacturing (in terms of output per hour worked) was up about 2 per cent. Capel reckons that by early 1992, the year-on-year increase could be up to about 10 per cent, adding to industrialists' confidence.

MANUFACTURING
The Treasury reckons manufacturing, which accounts for about a fifth of total UK output, will grow by more than 3 per cent next year, but some think this is too optimistic. ICI, Britain's biggest manufacturer, is gloomy. It thinks next year's pick-up will be "very modest". In 1992, export-intensive sectors are likely to lead Britain out of recession, especially in chemicals which is likely to see an increase in output of 3.6 per cent, according to Oxford Economic Forecasting. Engineering, which has been one of the hardest hit sectors over the past year and will probably experience an output fall this year of nearly 9 per cent, is likely to rebound 3.4 per cent in 1992.

GENERAL SERVICES
A booming part of the economy in the late 1980s, but many sectors have seen a decline in the past year. According to Business Strategies, a consultancy, the general area of hotels, catering, distribution and retailing is likely to see a 1.5 per cent increase in output next year, roughly reversing this year's loss. A small increase of some 2 per cent is expected in 1992 in the financial and business services industry, an area that was growing at an annual rate of about 10 per cent in the mid to late 1980s.

CONSTRUCTION – HOUSING
A misery market for the past year. In general construction, which includes offices and industrial buildings, a 2 per cent output fall is likely next year, after an 8.8 per cent decline in 1991.

HOUSEHOLD GOODS
With many households having cut back on purchases of "durable" goods such as TVs, washing machines and other electrical appliances, a rebound in these areas can be expected. Staniland Hall, a consultancy specialising in consumer spending, reckons "brown goods" including audio, video and photographic equipment will see a sales spurt of 6 per cent in 1992, with spending on "white goods", such as cookers, up by just over 1 per cent.

FOOD
Food shops have been one area of retail spending to have weathered the recession reasonably well. Household spending on food will probably be up 1 per cent next year, roughly the same as 1991.

CONSUMER LUXURIES
Anything that smacks even faintly of rich living will probably have a less than wonderful 1992. Recreational goods and jewellery are likely to see respective sales increases of 1.5 per cent and 1 per cent in 1992, far beneath 1980s levels.

CARS
UK car makers are deep in the doldrums but expect better things ahead. Next year, new car registrations are expected to increase 12 per cent after a 20 per cent fall in 1991. The numbers of cars in use is likely to creep up 2 per cent next year, after a 1.5 per cent rise in 1991.

All change for bank's charges

By David Waller

West German companies seeking to build up businesses in the east face a challenge with their new employees. They are finding that the baggage of a communist upbringing is not easily shed.

The problem is particularly critical for companies in the service sector. This is well illustrated by the case of Commerzbank, which alone of Germany's three biggest banks has built up a network in the east from scratch.

Whilst Deutsche Bank and Dresdner Bank snapped up the former state banking sector, Commerzbank decided to go it alone. The bank faced a colossal challenge in recruiting and training a new workforce.

The first advertisements were placed in leading east German newspapers in the spring of last year. Some 6,000 people applied for 100 specialist technical and clerical jobs and 10,000 chased the 70 graduate traineeships which lead to jobs in management. The exercise has been repeated since and altogether Commerzbank has hired 1,000 people from the east.

The Marquis de Pers, responsible for recruitment and training in the east, says that the new recruits need "psychological assistance" when they join the bank. "They have to learn that there is nothing evil about making a profit," he says. They all go on a week's introductory course on capitalism. They are also taught how to look after customers and to talk to them properly on the telephone.

"One of our earliest recruits told us that she really knew how to handle customers," recalls a tutor at one of Commerzbank's training centres. "It was a matter of great pride to her that she was so rude to customers that they never called back. She was genuinely pleased that she had saved the bank the bother of having to deal with a new client."

"In the west, the customer is king", says de Pers. "In the east the customer just had to wait."

Another lesson to learn was the value of money. "People started off with the belief that money was simply not important, that everything was OK here in the prosperous west," says de Pers. "They were amazed to find out that we could calculate exactly how much the training cost, that we know how much everything costs. They were astonished to find that the use of company phones for private use was not desirable. In the east, it was entirely acceptable to organise your personal life in the office hours – people were always nipping out if they heard that something had turned up in the shops."

The recruits are picked less on the basis of relevant experience – it was difficult to get any in the east – than on personality. They are all obliged to sign a statement saying that they never worked for Stasi, the east German secret police. Sometime membership of the communist party is not held against them, but not surprisingly, they are expected to abandon Marxist ideology and learn to revere profits.

At present, all the eastern branches are managed by "wessies", but so far, a total of around 150 "ossies" have embarked on the 2½-year programme leading to management positions.

The training, a mixture of academic studies and practical work in the branches, takes place largely in the west. When the course is over, the trainees will be encouraged to take up jobs in the east, although they will be free to compete for jobs in the west if they want to.

The course costs the bank upwards of DM120,000 (£42,105) per person a year, including salaries, which are the same for trainees from east and west.

It is now more than a year since Commerzbank took on its first eastern recruits and de Pers says that they have become "indistinguishable from their western colleagues in the way they dress, the way they talk and think". Newer recruits still face problems but it looks as though a new breed of post-unity manager is being born, neither wessie nor ossie, but a combination of both – the wossie.

CONSTRUCTION CONTRACTS

Building new district offices for British Gas

CONDER PROJECTS, the division of the Conder Group which deals with designing and building, has been awarded the £2.25m contract to construct district offices for British Gas Southern on its site at Reading.

It is intended that the 2,700 sq metre steel framed building will be L-shaped.

The building is seen as comprising three storeys and the storeys themselves will be constructed around the central feature of a glazed entrance atrium.

The design includes a mixture of cellular and open plan offices.

The designs show provision for a restaurant as well as for business conference facilities.

£5.8m orders awarded to Eve Group

New contracts valued at £5.8m have been won by the construction division of EVE GROUP.

The projects are led by a £3.4m development of 61 new flats in four blocks for the Paddington Churches Housing Association off Alder Grove, Dollis Hill, London NW2.

The new flats project is expected to take more than two years to complete.

Refurbishment of offices for Thames Water Utilities in the Mile End Road, and for the Arab Bank at 132 Park Lane are other projects for Eve's construction division in London.

There is also the complex tunnel refurbishment assignment off the Old Kent Road for the National Grid Co and works for the London Borough of Greenwich.

Outside London, the company's workload includes projects for the Norwich Union at the Bentall Centre in Kingston, Surrey; the London Borough of Merton at Morden, Surrey; the North Surrey Water Company at Pirbright, Surrey, and Lloyds Bank SF Nominees in Reading.

Water treatment plant at Rivington

North West Water has awarded the main £10m building package at its Rivington Water Treatment Works near Bolton to WIMPEY CONSTRUCTION NORTH WEST.

The contract, which is due for completion in August 1993, will create a purification plant capable of processing almost 20m gallons of water a day - supplying more than 150,000 local households.

This latest stage at Rivington follows Wimpey's completion of two earlier phases; the ground works for the scheme, and the construction of various diversionery pipelines and a pumping station.

During the next two years, Wimpey will build the main processing facility together with a water storage reservoir, clarification and filtration plant and a sludge treatment building.

Sewage treatment centre for Liskeard installation

ENVIRONMENTAL CONSTRUCTION, part of MJ Gleeson Group, has been awarded a £2m contract by South-West Water for the design, construction and installation of an anaerobic digestion sewage sludge centre at Liskeard, Cornwall.

Work by ECL on the facility will include a combined heat-and-power plant to enable the methane gas produced by the digestion process to be utilised to generate electricity.

It will serve a local population of some 26,000, with the single 900 cu metres ECL digestor treating 45 cu metres of thickened sewage sludge per day. The Liskeard centre will be almost identical to the one ECL is constructing for South-West Water at Kingsbridge, Devon.

ECL has also won an £85,000 contract for the design, supply, installation and commissioning of a Helixor aeration plant for effluent treatment at Dale Farm Foods, Holme-on-Spalding-Moor, Yorkshire.

Fitzpatrick wins bypass contract

FITZPATRICK CONTRACTORS have been awarded the contract to build the Kettering northern bypass. Valued at more than £3,750,000, the contract, to last 62 weeks, is for 4.4 kilometres of roads and two large roundabouts to form a spur to the A1-M1 link on the northern outskirts of Kettering.

The project for Department of Transport and their consultant Brian Colquhoun & Partners, is over old ironstone workings

Regional general hospital in prospect for Oman

YAHYA COSTAIN LLC, a 60 per cent owned subsidiary of Costain Engineering & Construction, has been awarded a RO9.3m (£14m) contract to construct a 200-bed regional general hospital at Rustaq.

The commissioning authority is the Ministry of Health in the Sultanate of Oman.

Situated 120 kilometres from the capital, Muscat, the project comprises a single-storey main building, a service building, and 20 two-storey accommodation blocks.

All buildings are constructed in the traditional manner of a reinforced concrete frame with blockwork infill.

The main building, housing the wards and theatres, covers an area of 19,160 sq metres and has plant rooms situated on the roof. All mechanical and electrical services are included in the contract.

Work is due for completion in September 1993.

The consulting engineer is Khatib & Alami Consolidated Engineering Co.

Scottish projects add to Taylor Woodrow books

TAYLOR WOODROW's work in Scotland has been increased by two new contract awards in Glasgow which are together estimated to be worth more than £4m.

At Hope Street, Taylor Woodrow Construction Scotland is engaged in building a five-storey office and retail development for Murray Clydeside Developments which is calculated to be worth in the region of £3.6m.

The concrete frame building is intended to consist of four floors of office accommodation.

Ground floor retail space and basement parking are provided for as additional features of the design.

Work has begun already and completion of the project is estimated for early 1993.

The second project given to Taylor Woodrow involves replacing boiler plant and heating installations at the City of Glasgow district council's city chambers building in George Square.

Work on the Glasgow district council's city chambers project is scheduled to be completed by next September.

Murray Clydeside Developments is a joint venture between London & Clydeside Properties and Murray Land & Estates.

APPOINTMENTS

The end of J&H's recruitment drive

JOHNSON & HIGGINS, the world's largest privately-owned insurance broker, is continuing to poach staff for its fast-growing London operations from Marsh & McLennan, the international market leader.

Chris Cook, a Marsh & McLennan managing director dealing with aviation manufacturers, has been hired to head a new aviation and space division being established in J & H's London operations. He is being joined by James Braithwaite and Chris Woods, former directors of Marsh & McLennan's Bowring Aviation, and Tim Wright who specialised in broking space risks at the Willis Group.

The appointments come less than a fortnight after J & H set up a new Marine & Energy division, headed by Martin Bowers, a former managing director of Marsh & McLennan responsible for co-ordinating international marine and energy production. Bowers, who had spent 22 years in the oil industry, is being joined by a group of senior former colleagues - Tom Redmond, Paul Holliday, John Carter and Ian Aggas.

Up to 18 months ago New York-based J & H had funnelled a large part of its overseas business though its London partner, Willis Faber. However, after Willis merged with New York's Corroon & Black, J & H was faced with the choice of finding another UK partner or building up its own London operation.

Charles Carter, who heads J & H's London operation, says that the latest appointments mark the end of J & H's London recruitment drive which has seen staff more than treble to over 300. As a result of its expansion it will probably have to move into bigger offices.

More moves in insurance

■ Following the acquisition of the short-term export credit insurance group of the ECGD by NCM of the Netherlands, which will be known as NCM CREDIT INSURANCE, Sir Douglas Wass (above) has been appointed non-executive chairman. Sir Douglas was permanent secretary to the Treasury from 1974-83 and joint head of the home civil service from 1981-83. Harry Groen is deputy chairman, Colin Foxall, md and chief executive, Gilmour Black, previously with Touche Ross, is finance director, and Dirk Bruinsma a non-exec.

■ Following the appointment of Vic Jacob as md of TRADE INDEMNITY, other directorships have been announced: Dane Batt, human resources, Terry Bridgman, reinsurance and risk management, Doug Brunner, domestic underwriting, Jerry Friend, export underwriting and international, John High, planning and information, Graham Kent, finance and secretariat, Simon Marshall, sales and marketing.

■ Michael Bullock and Gary Hirst are directors of FENCHURCH INTERNATIONAL and Nigel Brunning is a director of Fenchurch Marine Brokers.

■ Peter Barnard is appointed md of NETWORK INSURANCE Brokers; he moves from AA Commercial Insurance Brokers.

■ Roger Smith and John Tuckfield are appointed directors of CT BOWRING REINSURANCE.

■ Terry Smith is md of NM UK; he returns to the UK from being National Mutual's general manager for Tasmania.

■ Chris Clark, Peter Fane, Maureen Swage, John Wilkes and Stephen Crane are appointed directors of WILLIS FABER & DUMAS.

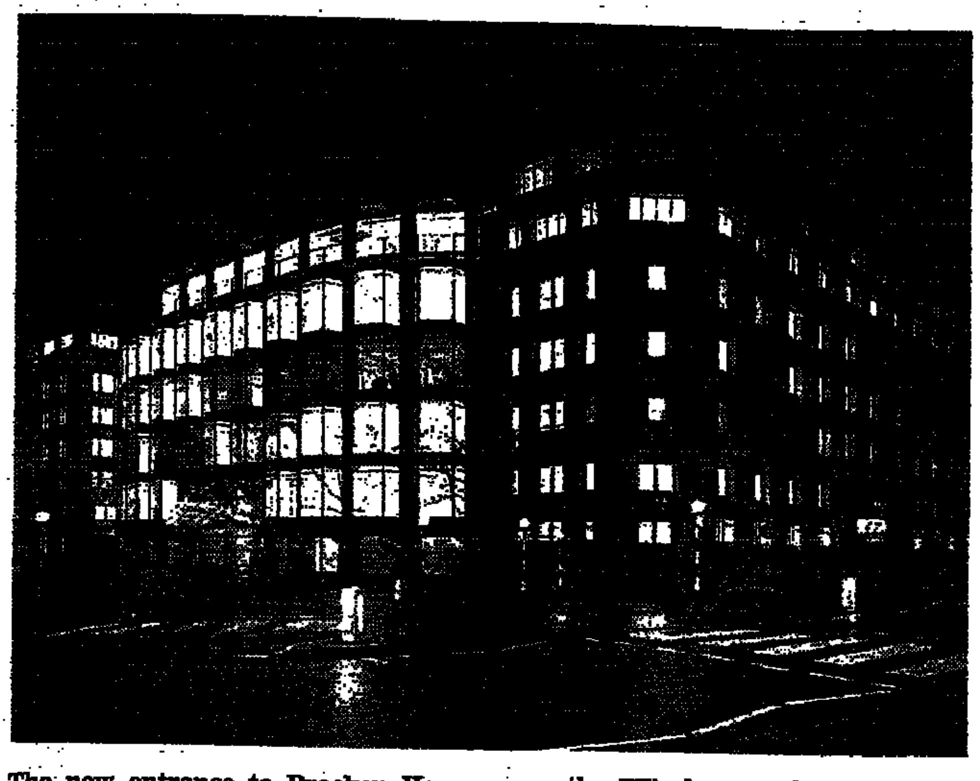
■ Eric Pepper is to be a director of PIERI & HOLLAND.

■ Peter Towers is appointed a director of HAFNIA PROLIFIC International Life Assurance.

■ Thomas Wilson, John Quigley, Charles O'Sullivan and Victor Alexander are appointed directors of R MEARS & CO.

هكذا من الأصل

ARTS



The new entrance to Bracken House, once the FT's home, which has been sympathetically transformed by Michael Hopkins and Partners

ARCHITECTURE

Happy marriage of past and present

There have been two important architectural events in the City of London in two weeks. Last week the Queen officially opened the new Liverpool Street Station and visited Broadgate. This week the Lord Mayor of London opens Bracken House, once the home of this newspaper and, after rebuilding by the Obayashi Corporation, to be the London base of the Industrial Bank of Japan.

Both these building projects represent in an almost archetypal way the English approach to architecture. Both Liverpool Street Station and Bracken House are listed buildings. Both of them have been transformed by good architects into characterful and workable new premises. In typically English fashion both of these important buildings have faced the death sentence of total and survived – resurrected to lead new lives.

What has to be said straight away, in these times of gloom and recession, is that the quality of both these new developments at the heart of the commercial City is remarkably high. The work of Nick Derbyshire and his colleagues in the Architecture and Design Group of British Rail at Liverpool Street has produced outstanding results. The decision by Obayashi Corporation to use the talents of architects Michael Hopkins and Partners at Bracken House has produced a masterly union of old and new buildings which adds a major new architectural achievement to the City.

It is a time to celebrate the talents of the British architectural profession and in a special way to celebrate two complex triumphs of the planning system. This system of listing buildings and a sometimes over-obsessive, even negative concern with conservation can really work well and these two projects should be seen as true and stirring exemplars.

Of course neither project would have reached such high levels of quality without substantial and innovative funding. At Liverpool Street the building of a station for the next century would not have been possible without the financial benefits that Rosehaugh Stanhope's four million square feet of offices at Broadgate brought to the total redevelopment. At Bracken House the calibre of the combination of old and new would not have been possible without substantial Japanese funding.

Perhaps Liverpool Street is the greater triumph because it demonstrates the virtues of plural funding in both the public and private sectors. The fruits of this particular marriage have within them the seeds for more projects of a similar nature. I look forward to a similarly successful outcome from the same sort of union at King's Cross and St. Pancras, where 19th century masterpieces will be at the heart of 21st century city development.

Sir Albert Richardson designed Bracken House for the *Financial Times* in the 1950's. His approach to the island site by St. Paul's was to adapt the plan of a 17th century Turin palazzo, the Palazzo Carignano by Guarino Guarini (1624-83) and build two parallel office wings on each side of a central core of offices and printing works. Richardson's design is hard to classify. It is not a straight-forward classical design; instead it could be one of those gaunt early 20th century Scandinavian blocks on the waterfront at Helsinki or Stockholm. It has a strong Northern feel, reinforced by the choice of dark brickwork and Hollington reddish sandstone.

Richardson was right not to face his building in Portland stone to "match" St. Paul's: the scale and colour of bricks provides exactly the sort of foil that Wren wanted for his cathedral. His insistence on cast iron and bronze windows and balconies, and his clear design control over the subtle and elegant classical decoration, produced a building that was a challenge to complement in any new work.

Michael Hopkins's decision to adapt the elliptical curves from the original plan of the Palazzo Carignano and marry them in his new centre block to the preserved wings was inspired. The new facade, best seen on Friday Street where he has placed the new main entrance, is a rhythmic arrangement of cast window bays elegantly echoing but also transforming Richardson's work. Where the printers were is now the new atrium at the heart of the offices. Here is light, filtered through glass floors, and restrained "technical" details that make this by far the most distinguished atrium in any new London office. Michael Hopkins has synthesised historical sources and everyday practicality in a way that is immensely distinguished.

There is no doubt in my mind that the new Bracken House is 100 per cent better than the old. But you could not have had one without the other. At Liverpool Street the same happy marriage of past and present is the also the key to the new station's success. It is harder at Liverpool Street to tell the new from the old. The great cathedral-like iron and glass roof has been extended in facsimile and extreme care has been taken to ensure a uniform quality of detailing. Much of the romance of the old Liverpool Street was the existence of high level walkways that offered visitors a sense of wandering about in the triforium of a cathedral. This sense remains, although it is now experienced in a different way. A high level walk of shops and restaurants along the line of the platforms will offer extraordinary views of the new station. Entertainment is to be had in examining the towers marking the entrances, which have been copied and adapted from parts of the old station. Are they new or old ?

It is hard to imagine when contemplating the new station the complexity of the entire construction operation. For six years (and it must feel longer to confused commuters) the building works have continued while the railway was running. The result is a clear triumph of engineering and architecture with dynamic benefits for the travelling public. To go from the new Liverpool Street to the new Stansted Airport (architect Sir Norman Foster) is to experience the very best of architecture and design in Britain today. It is time to cheer!

Colin Amery

Electra

RIVERSIDE STUDIOS

A stage of whitewashed walls and sun-bleached paving is sliced in two by an open drain. Village women swelter in the Mediterranean heat, drawing black veils across their faces when strangers approach. You could be forgiven for thinking you had blundered into one of Lorca's folk tragedies, but this is Sophocles. These are not Spanish widows; they are Greek chorines who witness with passive resignation the rantings and ragings of an Electra whose self-mutilating anger is shockingly revealed by the scratch-marks raking across a stretch of exposed thigh.

Fiona Shaw makes her first appearance from one side, drenched, half naked and relating in a tear-choked monotone the death of her father, Agamemnon. It is an entrance of devastating intensity, which makes you wonder where she can possibly go from there. At first, as she beats her chest or thumps herself against a wall, the answer seems to be further in the same direction. Then suddenly, as she peers at an urn that she believes contains her brother's ashes, the rage drops away leaving a desperate, lonely girl who cradles Orestes' memory tenderly in her hands before collecting herself up behind her madness once again and smearing herself with his dust.

This is one of the most electrifying performances I have ever seen, from a bravura actress whose restless egotism on stage often leaves me cold (notably in her recent, highly-praised *Hedda Gabler*.) Deborah Warner's revived RSC production, which runs without an interval, keeps faith with a Sophoclean purity of line without being remotely precious. Kenneth McLeish's translation is clear and direct.

There is no gimmickry of design or costuming, yet Warner and Shaw have created a post-punk Electra whose refusal to toe the line is countered by nagging images of social conformity elsewhere. The sombre chorus, which never actually speaks chorally, is offset by Electra's garishly suburban family. Susan Colverd plays her sister, Chrysothemis, as a plump frump in green whose loyalty and perceptiveness are quite unfairly brushed aside by Electra.

Sheila Gish's Clytemnestra is a powdered blonde in pomegranate pink, who has perfectly cogent reasons for having allowed her husband to be killed (Agamemnon had, after all, murdered her own daughter, Iphigenia.) She simply wants to be left in peace, but Electra will not stop harrying her. The rebel daughter squares up to her mother like prize fighter in a boxing ring – the hapless pragmatist *against the hopeless idealist.*

I love the bold splashes of colour – smashed fruit on the floor, or life's blood washing away in a dirty stream - but I also love the truthfulness of the detail. Angry women *do* tend to slash their own wrists; tragedy queens *are* pains; there is even a suggestion of Hedda-like cowardice in Electra's refusal to wreak her own revenge. She mimes with a cudgel while John Lynch's lean and hungry Orestes goes in for the kill. She is shrill, spiteful, and in places downright laughable, but you ignore her at your peril.

Claire Armitstead

Susan Colverd and Fiona Shaw

Verdi Requiem

SYMPHONY HALL, BIRMINGHAM

Despite the emphasis these days on the science of acoustics, it is unusual to find a new concert hall where an orchestra sounds good and doubly unusual - nay, remarkable - to come across one where a large choir rings out in full glory. We knew from the day it opened that Symphony Hall in Birmingham qualified on the first count and a return visit has confirmed its dual triumph.

The occasion was a performance of the Verdi Requiem, given on Saturday by the City of Birmingham Symphony Orchestra and Chorus, conducted by Simon Rattle. The extremes of musical effects required by this piece make it an ideal test for a hall's acoustic capabilities and Symphony Hall came through with resounding success.

The sound puts the soloists in a spotlight at the front, while the CBSO chorus, given a fine bloom, came from some distance behind. Symphony Hall was built with a special facility to open what are called "resonating chambers" for large-scale works, but on Saturday all the doors to them were closed. Perhaps it was felt that sharpness of attack is important for this very Italian score.

If so, there was an irony in the decision, for this was no Italianate performance in the Toscanini or De Sabata manner. Rattle lavishes any amount of musicianship on the piece and makes every moment come to life, from hushed angelic high strings to the dark cloud of mourning that settled memorably over the "Lacrymosa". But he lacks the essential Italian style, that dynamic pulse which should beat inexorably to each climax.

The CBSO played well for him and there was a lusty-voiced quartet of soloists, although Verdi sorts out with particular relish in this work any with a chink in their technical armour. Cynthia Clarey and Dennis O'Neill both sounded taxed at times, the mezzo's voice being only just weighty enough; John Tomlinson has a magnificently imposing bass for his music, but even that did not stop him making heavy weather of the "Confutatis".

The soprano Andrea Gruber came nearest to getting on top of her part, for she has voice to spare. At her best she reminds me a little of Leontyne Price, whom I heard sing the Verdi Requiem at the Albert Hall, though she also shares some of the same difficulty in manoeuvring her soprano around with much precision. When difficulties beckon, Gruber just sings out and the "Libera me" did not find its unearthly quiet in these forward acoustics.

For the natural warmth of its sound some people have compared Symphony Hall to the Concertgebouw in Amsterdam. Well, I was in Amsterdam the Saturday before and on this evidence I would say that Birmingham has the edge in overall sound quality even over that venerable concert-hall.

Richard Fairman

Thérese

RUDOLF STEINER THEATRE, NW1

Thérese, the second of John Tavener's two operas, was one of the handful of works commissioned by the Royal Opera in the 1970s. It was first performed at Covent Garden in 1979, met with an indifferent reception, and disappeared. The production mounted last week by Trinity College of Music was thus of considerable curiosity value.

A second look, undertaken in more modest circumstances, is sometimes just what an opera needs to reveal merits previously obscured, particularly when its composer is one of the more prominent figures of British music. While recognising that the Trinity students put heart and soul into the project, and that the performance was in many ways an extremely striking, vividly achieved piece of music-theatre, one must reluctantly state that the overall impact of the opera was here of the punctured-balloon variety.

Tavener bases his whole edifice on a character – St Therese of Lisieux, pictured on her deathbed as she tests and finally reaffirms her faith – whose possibilities for treatment as an opera character would seem extremely slender; and then utterly avoids all dramatic projection of that character.

Tavener's score, now cut down to a length of about 70 minutes, sets up large-scale contrasts of texture and sonority. But the effect is all of effects – bell sounds, echo-images, voices carolling or angularly keening, a final sugary vision of ecstasy. It simply doesn't add up, or engage one in the slightest.

The conductor, Rhonda Kess, had devised the new chamber version of the opera in collaboration with Tavener himself. The long, taxing soprano title role was here divided between two singers; at least one of them, Sharon Fleetwood-Law, disclosed a beautifully pure, crystalline high soprano that one will be very glad to encounter again.

Max Loppert

The playwright who came in from the cold

As the television series ends, Anthony Curtis looks at 'Ashenden' and its author

Ashenden is a Kentish name. There were two Ashenden brothers at the King's School, Canterbury, when Somerset Maugham was there in the 1880s. He gave it to the young hero-narrator of his novel *Cakes and Ale*. Maugham liked the "burnt-out case" resonance in the name Ashenden, and he also, as we Sunday night BBC1 viewers well know, gave it to the secret agent hero who links the related series of short-stories he wrote based on his intelligence work in the First World War.

While Maugham was in Russia the tuberculosis to which he was prone worsened to such an extent that on his return to England he was advised to go to a clinic in Scotland. While he was recuperating there, Maugham became so fascinated by the love-lives of his fellow patients that he wrote a final Ashenden story, "Sanatorium" published separately in another book and filmed in *Trio* in 1950.

How close is the actor Alex Jennings to the "real" Maugham *aka* Ashenden? Well, there are resemblances. Both have large, staring, penetrating eyes, a moustache, and both dress correctly like conventional English gents of the period. The real one had too a stammer, somewhat harsher features, a genuine sadness rather than mere wistfulness, and – though about to be married to a fashionable woman – he was gay.

Maugham's First World War intelligence work on which the series is based was in two distinct phases. Phase one was when he was based in Switzerland where he monitored local agents, paid them their wages and transmitted information to his chief. This Le Carré-type figure, "R", played by Ian Bannen, is only a shadowy character in Maugham's text – "A man of few words". His real life original was Sir John Wallinger, head of espionage in France and Switzerland. His running battle with his naval intelligence counterpart Cumming (Joss Ackland) has been imported by the adapter David Pirie into the original and is derived from his research into the now available first war archive material.

Maugham's second phase was in Russia during the tottering twilight days of Kerensky's Provisional Government (Russia's last attempt at democracy) and was of more crucial significance. The television series which ended last night, presumably in order to have a complete change of setting from Europe to Russia halfway through, muddled up the two phases. a

Maugham's instructions were not merely to try to stop Russia from signing a separate peace with Germany, but also to assess the strength of racial groups within the Russian orbit whose aspirations for autonomy the Allies could encourage in their effort to defeat the Bolsheviks.

The series showed us Ashenden frustrated in his attempts to see Kerensky. Maugham eventually did see Kerensky. "I felt sorry for him," Maugham said, "...there was something appealing in him so that you felt inclined to help him". The outbreak of the Revolution – as the series so vividly showed – did bring Maugham's activities in this role to an abrupt end, but the latest research and indeed recent events in Russia, suggest they were of more importance than Maugham afterwards admitted.

Maugham did not find working as an agent at all uncongenial. It appealed to his temperament as well as providing him with ideas for stories. He applied to serve again at the outbreak of the Second World War and was engaged by both the intelligence service and the Ministry of Information. He became a propagandist as early as 1938. After he had escaped from France, he was sent to America with the task of countering the then widespread American isolationism by writing articles and making speeches.

What would he have thought of Ashenden on television? He would have loved it, surely, especially the beautifully photographed period reconstructions and the fine performances. He never had any objection to a colleague dramatising his stuff – Rodney Ackland, S.N. Behrman, Noel Langley, R.C. Sherriff, all had a go at making plays or films out of Maugham stories during his lifetime.

Maugham merely insisted that the work of adaptation should be competently done and that he should receive his share of the proceeds.

Anthony Curtis's introduction to the new Penguin Modern Classics Edition of 'The Razor's Edge' will appear early next year.

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

■ AMSTERDAM

Concertgebouw 20.15 Song recital by Wout Oosterkamp. Tomorrow and Sat: Roberto Benzi conducts the Netherlands Philharmonic Orchestra. Wed, Thurs, Fri and Sun: Kurt Sanderling conducts the Royal Concertgebouw Orchestra (6718 345)
Muziektheater 20.00 Carlo Rizzi conducts Werner Schroeter's production of Luisa Miller, with a cast led by Kallen Esperian and Sergey Larin, also Thurs and Sun. Tomorrow and Fri: Dutch National Ballet in Swan Lake (6255 455/ credit card bookings 6211 211)

■ ATHENS

Concert Hall 20.30 Athens State Symphony Orchestra plays music by Evangelatos, Mozart and Brahms. Fri at 11.00: Thanos Mikroutsikos conducts a programme entitled Musical Tales, with works by Rolf Liebermann, Gunther Schuller and Alkis Baltas (722 5511)

■ BERLIN

MUSIC
Deutsche Oper 19.00 Stefan Soltesz conducts Giancarlo del Monaco's production of Samson et Dalila, with Marjana Lipovsek, Vladimir Atlantov and Alain Fondary, also Thurs. Tomorrow and Fri: L'elisir d'amore. Wed: Elektra. Sat: ballets by Balanchine, Petipa and Roland Petit. Sun: Lohengrin (West Berlin 3410 249)
Komische Oper 19.00 Rolf Reuter conducts Gunter Kramer's production of Der Freischütz. Tomorrow: Georg Katzer's new opera Antigone oder die Stadt. Wed: Cav and Pag. Thurs: orchestral concert. Fri: Bartered Bride. Sat: La bohème. Sun: Cinderella (East Berlin 2292 555)
Schauspielhaus 20.00 Gothart Stier conducts the Berlin Symphony Orchestra and Dresden Kreuzchor in Bach's Christmas Oratorio. Thurs and Fri: Gerd Albrecht conducts the Berlin Staatskapelle. Sat afternoon and Sun morning: Haitink conducts the Berlin Philharmonic Orchestra. Sat and Sun evenings: Alan Miller conducts the Berlin Symphony Orchestra (East Berlin 2272 261)
THEATRE
East Berlin: Thomas Langhoff directs a new production of Kleist's Das Käthchen von Heilbronn (1810) at the Deutsches Theater, opening on Thurs, repeated on Sun (2871 225). The Kammerspiele has a single-evening adaptation of Shakespeare's Henry IV plays on Wed and Fri, plus Ibsen's John Gabriel Borkman on Thurs (2871 226). This week's repertory at the Berliner Ensemble includes Schweyk tonight and Fri, Baal tomorrow, The Threepenny Opera on Wed and the Caucasian Chalk Circle on Thurs (2827 712). The Maxim Gorki Theater has plays by George Tabori tomorrow and Thurs, plus Chekhov's Three Sisters on Sat (2082 748), and the Volksbühne is showing Schiller's The Robbers tomorrow and Sun, an adaptation of Bulgakov's The Master and Margarita on Thurs and Chekhov's On the High Road (1884) on Fri (282 3394).
West Berlin: the Schaubühne has Arthur Schnitzler's 1904 play The Lonely Road, directed by Andrea Breth, tomorrow, Fri, Sat and Sun (890023), and the Theater des Westens has daily performances (except Mon) of Stephen Sondheim's musical Follies (3190 3193).

■ BOLOGNA

Teatro Communale 21.00 Keller Quartet plays string quartets by Haydn, Bartok and Tchaikovsky. Tomorrow, Fri and Sun: Riccardo Chailly conducts Hugo de Ana's production of Werther. Tomorrow in Sala Europa: Nederlands Dans Theater (529999)

■ CHICAGO

Civic Opera House 19.30 Antonio Pappano conducts Lyric Opera production of L'elisir d'amore, with Cecilia Gasdia, Jerry Hadley and Claudio Desderi, also Fri. Sat: Catherine Malfitano sings the title role in Madama Butterfly (332 2244). Tomorrow, Thurs, Fri, Sat in Orchestra Hall: Boulez conducts the Chicago Symphony (435 6666)

■ LONDON

Covent Garden 19.00 Hartmut Haenchen conducts Graham Vick's new production of Mitridate, with a cast led by Jochen Kowalski, Ann Murray, Yvonne Kenny and Gillian Webster, also Wed and Sat. Tomorrow and Fri: Frederick Ashton's production of La fille mal gardeé (071-240 1066)
Royal Festival Hall 19.30 Andrew Davis conducts the BBC Symphony Orchestra in Stravinsky's Scherzo fantastique, Mussorgsky's Pictures at an Exhibition and Prokofiev's Sinfonia concertante with Ralph Kirshbaum. Tomorrow: Jane Glover conducts Mozart's arrangement of Handel's Messiah. Wed: Hans Werner Henze conducts the London Sinfonietta in a programme of his own music. Thurs: Anne Sofie von Otter song recital. Sun: Wolfgang Sawallisch conducts a Brahms programme with the LPO, with Maurizio Pollini soloist in the First Piano Concerto (071-928 8800)
Barbican Tomorrow: Handel's Messiah. Thurs: Colin Davis conducts the world premiere of Peter Wiegold's new orchestral work. Sat: James Galway's Christmas collection. Sun: Colin Davis conducts the Missa Solemnis (071-638 8891)

■ MILAN

Teatro alla Scala 20.00 Song recital by Edita Gruberova accompanied by Friedrich Haider. Tomorrow, Fri and Sun: Riccardo Muti conducts Parsifal. Thurs and Sat: John Cranko's production of Romeo and Juliet (7200 3744)

■ MUNICH

OPERA
This week's programme at the Staatsoper includes Peter Grimes on Wed and Sun, in a production by Tim Albery conducted by Andrew Davis, with a cast led by Rene Kollo, Pamela Coburn and Donald McIntyre; Il barbiere di Siviglia on Thurs with a cast led by Luciana Serra; La bohème on Fri with Gabriela Benackova as Mimi and Peter Dvorsky as Rodolfo; and Riccardo Duse's production of Cinderella on Sat (221316)
CONCERTS
Tonight in the Staatsoper, Wolfgang Sawallisch conducts the Bavarian State Orchestra in the world premiere of An Jupiter, a new work by Paul Engel. The programme also includes Mozart's rarely heard Litaniae de venerabili altaris sacramento K243, with the Bavarian Radio Chorus and soloists including Gösta Winbergh. This concert is repeated tomorrow (221316). Tonight and tomorrow at Gasteig, Lothar Zagrosek conducts the Munich Philharmonic Orchestra in music by Bartok and Messiaen. On Thursday and Friday, Semyon Bychkov conducts the Bavarian Radio Symphony Orchestra in Mahler's Second Symphony, with soloists Edith Wiens and Christa Ludwig (48098 614)

■ NEW YORK

Blue Note Jazz Club and Restaurant
Tonight's guest is Tony Bennett with the Ralph Sharon Trio, with shows at 21.00 and 23.30. Tomorrow till Sun: Milt Jackson Quartet plus Mark Whitfield Trio. Next week: Ruth Brown. New Year's Eve: Manhattan Transfer. Jan 7: Dizzy Gillespie begins a four-week engagement to celebrate his diamond jubilee at the Blue Note (475 8592)
Avery Fisher Hall
This week's New York Philharmonic concerts (tomorrow, Thurs, Fri Sat) are conducted by Erich Leinsdorf (875 5030)
Carnegie Hall
Tonight at 20.00: The King's Singers present five centuries of festive celebration through words and music. Thurs: June Anderson recital. Fri: Delores Ziegler recital (247 7800)
Metropolitan Opera
Cheryl Studer and Alfredo Kraus sing in tonight's performance of La traviata, also Thurs. Tomorrow and Sat afternoon: Entführung. Wed and Sat evening: Idomeneo. Fri: Aida (362 6000)

■ PARIS

Châtelet 20.30 Kent Nagano conducts the Ensemble InterContemporain in Messiaen's Des canyons aux etoiles. Also today, John Lill gives a lunchtime recital at 12.45, the first of three featuring the piano music of Prokofiev. Next concerts: Wed and Fri. This week's programme also includes daily performances of West Side Story, starting tomorrow (4028 2840)
Opéra Bastille 19.30 Friedemann Layer conducts Bob Wilson's production of Die Zauberflöte, with a cast led by Hans Sotin, Cynthia Haymon, Hans-Peter Blochwitz and Wolfgang Schöne. Runs till Jan 14, with next performance on Wed (4001 1616)
Théâtre des Champs-Elyseés 20.30 Yan Pascal Tortelier conducts the Orchestre National de France in a concert in memory of his father Paul. Sun: Philippe Herreweghe conducts Zelenka's Missa Circumcisionis and Parts V and VI of Bach's Christmas Oratorio (4720 3637)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
0730-0800 Moneyline
1230-1300 Business Morning
1330-1400 Business Day
2000-2030 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman
2300-2330 World Business Today
0100-0130 Moneyline

Super Channel
0600-0620 Business View
0630-0700 Business Insiders
2130-2200 (Tues) East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Wed) FT Business Weekly - tglobal business report with James Bellini
2130-2200 (Thurs) Talking Heads - International Issues

Sky News
1200 International Business Report
1130, 1730, 2130, 0430, 0530 (Thurs) FT Business Weekly

SATURDAY

CNN
0730-0800 Moneyline
0900-0930 World Business This Week - a joint FT/CNN production
1540-1610 Moneyweek
1900-1930 World Business This Week

SUNDAY

Super Channel
1800-1830 FT Business Weekly

Sky News
1330, 1630, 2030, 0030, 0230 FT Business Weekly

CNN
1800-1830 World Business This Week

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Monday December 9 1991

A faster track for new drugs

SINCE THE thalidomide tragedy 30 years ago, the time required to license new medicines has grown steadily longer. It now takes a typical drug 10 to 12 years to negotiate the regulatory hurdles from discovery to commercial launch – an excessive period in the view of the pharmaceutical industry and of patients desperate for treatment.

But two welcome developments in recent days suggest that pharmaceutical regulation has reached a turning point. Drugs discovered during the 1990s are likely to reach patients more quickly than in the 1980s.

The first event was the International Conference on Harmonisation in Brussels. The US, Japanese and European regulatory authorities agreed to eliminate unnecessary duplication of testing, which delays the introduction of new drugs on the world market.

Then the US Food and Drug Administration announced sweeping reforms which would cut the average time taken to develop and approve new drugs for life-threatening diseases by 45 per cent to 5½ years. Even drugs aimed at less serious illnesses would be developed and approved within seven years.

The Aids virus is the ill wind that has blown this good. Aids was the first disease to generate consumer-style activism among its patients. One of their main targets was the painstaking approach of the FDA, with its emphasis on safety. Vociferous lobbying persuaded the agency that, for people suffering from a fatal disease, quick approval of promising treatments is self-evidently more important than exhaustive testing for side-effects. AZT and other Aids drugs were therefore put on a fast-track approvals process.

Regulatory burden

The new FDA reforms recognise that people suffering from other incurable diseases, including cancer and mental disorders, are impatient too. On this issue their interests coincide with those of the pharmaceutical companies, which say that the growing regulatory burden is the main reason why the average cost of developing a new drug has increased from $50m to $250m over the past 15 years.

Part of that burden can be removed, by negotiating uniform international tests. It has been estimated for example that standardising long-term toxicity tests at six months would cut the industry's costs by a total of $100m a year – and save the lives of 35,000 laboratory animals, itself an increasingly important consideration.

Standardise trials

There is no scientific reason why a drug company should not submit an identical dossier of pre-clinical data to every regulatory authority in the world. The long-term aim should be to standardise clinical trials too. But medical practice and social conditions vary so much around the world that in exceptional cases national authorities may be justified in insisting on local tests.

Ideally, a company would carry out one comprehensive set of scientific tests, animal experiments and human trials, for submission to the world's regulatory authorities. This does not mean that every country will always be expected to come to the same decision about approving a particular drug. Licences will sometimes have to vary according to local conditions and medical needs.

Harmonising and accelerating the licensing process need not increase the risk of dangerous medicines slipping through. Indeed if unnecessary bureaucracy is eliminated, industry and regulators will find it easier to focus on the substance of the tests.

As an additional insurance, monitoring of drugs already on the market needs to be increased, a task which is becoming easier as doctors computerise their prescribing.

Streamlined regulations will enable the pharmaceutical industry – already one of the world's most profitable – to make substantial cost savings. Companies must take care to plough most of their windfall back into increased research and/or lower drug prices. Otherwise governments will feel less inclined to resist growing political pressure to introduce stringent price controls on the industry.

No way to sell a railway

MERCIFULLY, no one died in Saturday morning's train crash in the Severn Tunnel. But with the government on the point of publishing its railway privatisation plans, this near-disaster poses a troubling question.

If accidents as serious as this can happen under a unified British Rail whose chairman's stated priority is safety, how much greater could the risks become when ownership of the railways is fragmented among a larger number of companies motivated primarily by profit?

BR's recent safety record is, to be sure, far from untarnished, and it has also performed poorly by the other criteria that matter to users: comfort, reliability, punctuality and price. So the government may believe it has a vote-winner with its apparent intention to abolish BR within the lifetime of the next parliament.

Inevitably, however, this raises suspicions that vote-winning is what this is about: for after years in which successive transport secretaries acknowledged the near-impossibility of bringing the railways into the private sector, privatisation has suddenly been switched to the fast track.

Next month a white paper is expected to pave the way for the outright sale of the InterCity and Railfreight operations, complete with their trains and tracks. The Network SouthEast commuter operations and Regional Railways services will have to be treated differently because of the losses they make: but these, too, will be delivered swiftly to the private sector by keeping the tracks in state ownership and putting the train operations out to tender.

Safety fears

Fears about the safety implications of privatisation may be exaggerated. There is no evidence that other privatised transport operators – in the air, on sea or on land – have sacrificed safety for profit.

Yet railways are more likely to be safe as well as comfortable, reliable, punctual and reasonably-priced if they are making enough money to invest: and it is by no means clear that the proposed structure will allow them to do so.

The reason why railways were nationalised in 1948 is that they were unable to compete with roads which were free at the point of use. That has not changed. The only two passenger services which make significant profits today are the Gatwick Express and the London-Norwich trains – in both cases, because they are InterCity services that are given a virtually free ride over Network SouthEast's tracks.

Profits potential

By the same token, a great deal more of the railway would offer strong profits potential if the government could bring itself to accept the logic of putting railways on a competing footing with roads – that is, by taking responsibility for the track infrastructure, as it does for roads, and putting the charging structure for the two on a comparable basis.

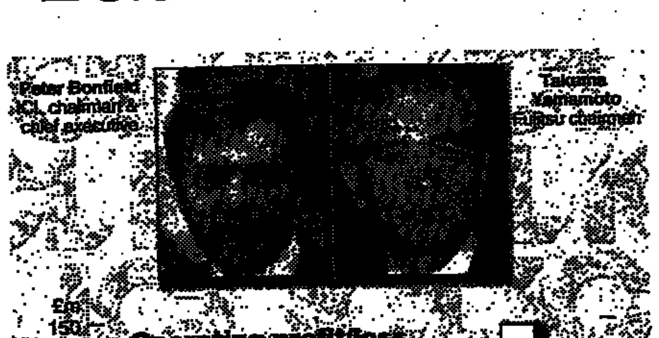
Mr Malcolm Rifkind, the transport secretary, argues that track costs account for 45 per cent of the cost of running a railway service, so a monopoly track supplier – whether private or state-owned – would wield too much influence over train operators' viability. Yet road and air transport operators thrive in comparable circumstances: and Mr Rifkind has already swallowed his own arguments in the case of Network SouthEast and Regional Railways out of a recognition that this is the only way of privatising them.

Mr Rifkind's plans are yet to be finalised, but at this stage they look perilously like making matters worse. Services will decline and the underfunding of the railways will further deteriorate if operators are denied the ability to make sufficient returns. The creation of a track authority would not only provide the basis for thriving, profitable and competitive train services, but would also reassure those who feared for the future of centralised functions such as safety, timetabling and ticketing.

Mr John Prescott, the shadow transport secretary, says Britons do not care who owns the railways: what they do care about is that trains should be safe, comfortable, reliable and reasonably priced. State ownership has failed the public; but Mr Rifkind should think again whether his approach provides the cure.

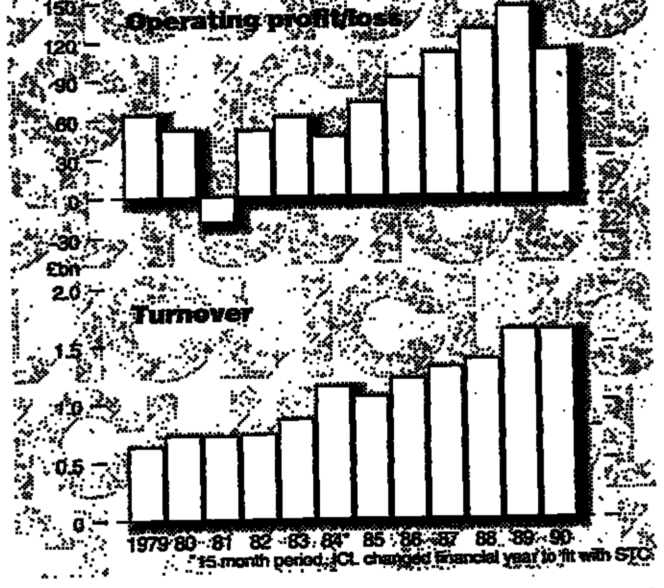
Alan Cane looks at ICL's prospects one year after Fujitsu took control

Silencing its critics



Peter Bonfield ICL chairman & chief executive

Takuma Yamamoto Fujitsu chairman



*15-month period. ICL changed financial year to fit with STC

Twelve months after the deal by which Fujitsu, Japan's leading computer manufacturer, took control of ICL, the UK-based information technology company, ICL is displaying a bouncy self-confidence conspicuously lacking among its European competitors.

There are some obvious reasons for its buoyancy. The company is profitable, albeit at a reduced level compared to earlier years, while Groupe Bull of France, Olivetti of Italy and Siemens Nixdorf of Germany are losing money.

It has also begun to win back market share against companies such as International Business Machines; recently, for example, it persuaded British Gas to base its future large computer strategy on ICL equipment at IBM's expense. This is ICL's largest single contract and will be worth some £200m.

Most important, it is gradually winning acceptance for its assertion that it is an independent company with a foreign majority shareholder rather than a Japanese Trojan Horse intent on undermining Europe's fragile computer industry. Competitors and customers pay the company a new respect. The chief executive of one US mainframe manufacturer says: "Of the European manufacturers, only ICL seems to have got it right." A senior consultant agrees: "ICL understood the direction the industry was taking towards open systems and computing services five years before its competitors."

All this is in marked contrast to events just after the takeover, when ICL suffered a barrage of abuse, culminating in its expulsion from the European electronics manufacturers' club, the IT Round Table, and exclusion from some joint European research projects.

There was a feeling that ICL had "sold out" to the Japanese, destroying any chance of creating a united front of European companies to challenge US and Japanese competition and harming European chances of an independent effort in research and development.

ICL chairman and chief executive Mr Peter Bonfield, a semiconductor engineer, was furious about the expulsion at the time, but now says it was one of the better things that happened to ICL. "It forced us back on our own resources. We have had to spend more time lobbying in Brussels."

One positive result seems to be that Brussels is now ready to abandon its previous narrow view that a "European" company has to be European owned. It is prepared to accept as European a company with its registered office, manufacturing and the greater part of its research and development in the Community. This definition fits ICL perfectly.

The Japanese were also upset at the cold shouldering of ICL, but privately. Mr Takuma Yamamoto, Fujitsu chairman and the architect of the company's dealings with ICL, describes the company's expulsion from the European club as "anachronistic". He thinks the industry of tomorrow will be characterised by a network of companies tied into "borderless strategic alliances".

Such alliances, he believes, will become increasingly important as a way of controlling the tensions which build up between countries and regions of disparate economic strength. Mr Bonfield describes the relationship between ICL and Fujitsu as a "textbook example of global co-operation". But what does that really mean? How has ICL changed financially, technically and culturally since donning the kimono?

● Finance. ICL was already Europe's most consistently profitable computer maker and that pattern was maintained last year with pre-tax profits of £110m on sales of £1.5bn.

The reason is that its well-publicised problems of the late 1970s and early 1980s forced it to cut costs and move towards computing services earlier than other mainframe manufacturers. It remained, however, too small to guarantee its survival beyond 2000 without a larger partner. Even the mighty IBM has found it necessary to seek alliances to share costs and cut risks.

Mr Bonfield is grimly realistic about this year and next. "It is going to be a very tough year. It will sort the lucky from the unlucky, but working hard and having a good strategy makes you luckier," he says, adding that Fujitsu has provided no finance either for research and development or capital expenditure. ICL has relied on its own resources.

For example, the purchase of Nokia Data, the personal computer arm of the Finnish Nokia Group, for £230m in mid-year was wholly an ICL initiative, Mr Bonfield says. It was not perhaps the match of choice – ICL had hoped to buy Kienzle Data Systems from the German Mannesmann group but was pipped to the post by Digital Equipment of the US.

One immediate consequence of the deal is that ICL is likely to supply Fujitsu with Nokia personal computers for markets outside Japan. This is an example of the kind of synergy Mr Yamamoto is seeking from Fujitsu's global family which now includes three US companies – the mainframe manufacturer Amdahl, in which Fujitsu has a minority stake, the semiconductor designer HAL and Poqet, which makes hand-held computers.

Mr Yamamoto says: "We must make the most of ICL's strengths which means not putting a brake on its activities. It is important that we are autonomous but that our strategies proceed in the same direction".

● Technology. ICL's links with Fujitsu in mainframe technology have now been in place for a decade, but they have intensified with the takeover. The UK company, for example, is designing some of the fibre-optics for Fujitsu's new mainframe ranges. Sixty ICL engineers are involved. As Fujitsu is now probably the world's top hardware designer, this is an indication of the regard in which ICL's engineers are held by the Japanese.

Fujitsu is particularly interested in ICL's mid-range machines – high-performance workstations and the Unix operating system which is rapidly becoming the world standard. The company is already shipping workstations to Japan and Fujitsu is marketing the ICL machines in its other markets. Mr Yamamoto says: "ICL is ahead in this area; there is a lot for us to learn."

Fujitsu's way of learning involved sending some 200 engineers to the UK to investigate its new acquisition. Mr Ed Parton, manager of ICL's workstation group and Mr Keith Winter, manager of the Unix centre, were surprised by their visitors' attention to detail and their circumspection. Mr Parton said: "I had expected them to act as the senior partner, but there was no assumption of superiority in our meetings."

● Culture. In marked contrast to earlier fears, Fujitsu's management style at ICL has proved light to the point of invisibility. There are few obvious signs of Japanese ownership. One Fujitsu executive, Mr Koshiro Kitazato, has been assigned to ICL's management board. Described as director of co-ordination, he reports to Mr Bonfield and his business card carries the ICL logo. He attends the management board meetings on Monday afternoons which, in Mr Bonfield's laconic expression, "run the company". Full board meetings with the top brass from Tokyo take place quarterly, with more frequent contact made by video-conference.

When Fujitsu completed the takeover, it announced it was planning to float ICL on the UK stock market within five years; those plans are going ahead although the present state of the stock market implies that the decision to float will be taken later rather than sooner. Financial advisers, merchant banks and brokers are being sought, however, and will be appointed in the early part of next year.

The fact remains that the link with Fujitsu is, at the top, an intensely personal one. It depends on the trust which has developed over the years between Mr Yamamoto and Mr Bonfield.

Mr Bonfield has agreed to stay with the company until the flotation but has made no secret of his desire eventually to return to the US where he spent the earlier part of his working life.

To ensure a comfortable succession, the top echelon of ICL's managers is being encouraged to build a rapport with their Japanese counterparts.

ICL seems to have confounded its critics; it seems largely to have retained its integrity, identity and independence. But it is early days and nobody should underestimate the Japanese capacity to sustain a long-term vision of the future.

Mr Yamamoto expresses satisfaction with his investment but is clearly looking for more: "Maybe in the future it will be possible to have real synergy between our two companies," he murmurs thoughtfully.

PERSONAL VIEW

Russia: time to help is now

By Michael Ellam and Richard Layard

Russia has reached its moment of truth. Within the next five weeks it will go through with the biggest economic reform ever attempted anywhere. It is vital for us all that this succeed. And it cannot succeed without western help.

Mr Boris Yeltsin has asked for a $4.5bn stabilisation fund. There is no reason this help should not be given – and fast. The reform package is of the standard type proposed by the International Monetary Fund, and its details will be worked out jointly with them.

But at present there is a terrifying lack of urgency in the western approach. Four main factors explain this scepticism – all of them misconceived.

● "There have been plans before. What's the difference?" The difference is total. Until the August putsch, Russia was prevented from reforming by a Communist government at the centre.

Now Mr Yeltsin is in charge. He has formed a new government of outstanding young radical professionals who really know what they are doing. This is the first democratic government that has ever been in charge in Russia.

They now have control of the central bank and of the whole budget on their territory. They thus have the means to deliver.

● "Why such speed?" True, the Russians are moving fast. By January 1 they will free most prices, attempt a balanced budget, and make half their foreign exchange earnings fully convertible for current transactions.

This is faster than most countries have acted. But surely we should congratulate them. It would be nice if Russia could afford to proceed more slowly. But it cannot. The queues are intolerable, and industry is on its knees because importers cannot buy critical imports.

Moreover, the political time-bomb is ticking away. The government has to reform quickly and show results, otherwise it will be swept aside by dark political forces that will not suit any of us.

● "But what about Mr Gorbachev?" The G7 group of leading industrial countries has been obsessed by the centre, long after the centre lost all control over the economy. The west has taken the most short-sighted view of its own interest – that somehow the centre could make sure western debts get paid.

In fact all power has passed to the republics. Only if the Russian reforms succeed is there any chance that the debts will be paid.

The west also worries that Russia is pressing on with reform before the other republics. It would like everything to be neatly agreed and synchronised among the 15. Unfortunately life is not like that. Someone has to lead, and Russia is doing just that. Mr Yeltsin has reached good economic understandings with Belorussia and Kazakhstan, and following his magnanimous trip to Ukraine, he will try the same with them.

● "But Russia is not a member of the IMF." The worst objection of all. In unusual times unusual procedures should be followed. The IMF is well enough established in Moscow to do its monitoring.

The money needed is tiny. If in 1992 Russia got a $5bn stabilisation fund, plus $12bn food aid and balance of payments support, this would be less than 1 per cent of Nato defence expenditure. Aid to Russia at this critical moment would buy the world a lot more safety than 1 per cent of arms.

Without a stabilisation fund the dangers are extreme. The exchange rate could float down to a level that makes no sense at all. At present the standard rate paid by importers is 1.8 roubles per dollar. At this rate the existing wage of about 5 roubles an hour is clearly uncompetitive and devaluation to, say, 10 roubles per dollar would make sense. On top of this we should allow for the necessary adjustment of prices and wages to eliminate the monetary overhang. This means a doubling of wages and an exchange rate of about 20 roubles to the dollar.

But in an infant foreign exchange market where the rouble is left to float, there is no chance that such a rate would emerge. The free rate in the existing thin market is 100 roubles, and a likely future rate might be 40-70 roubles.

Such a rate would put no competitive pressure on industry. It would simply cause a further and unnecessary inflationary shock. Wages would rise many times. And the price of grain and other traded goods could rise by a multiple of 20 or more. There would be little chance that the present enlightened government could survive. And the poor would suffer the most.

If any government ever deserved western support, it is this one. It is up against massive problems. Yet they have done everything a Financial Times reader would want them to do. It is time for our own governments to respond. The place to start is Maastricht.

Richard Layard is director of the Centre for Economic Performance at the LSE and an adviser to the Russian government. Michael Ellam works with him in Moscow

OBSERVER

Family interests

In choosing the present moment to back a campaign promoting family businesses, the Confederation of British Industry might seem to be emulating the theatre-goer who reputedly asked Mrs Abraham Lincoln: "But apart from that, how did you like the play?"

With certain notable exceptions, however, the UK has paid unduly scant attention to its family firms. Unlike the Germans and French who take them seriously, the British have typically viewed them as an anachronism.

It is an attitude which chimes oddly with research findings that no less than 70 per cent of UK businesses are family-owned. Hence the CBI's backing for an initiative by accountants Stoy Hayward (to whom the fates have been unkind before), to launch the Family Business Forum.

The idea is to shed light on issues peculiarly affecting such companies, including how to ensure management succession and how to prevent family quarrels from fouling up the works. To gain an international perspective, Stoy has formed links with America's Wharton Business School, which has a division focusing on family firms.

The first of what are intended to be regular meetings on the topic is scheduled for Thursday evening at the CBI's Centrepoint headquarters in London. Since the event is to be chaired by Dominic Cadbury, chief executive of Cadbury Schweppes, it should at least leave a good taste in the mouth.

Big deal

■ For the first time Observer can remember a firm of chartered accountants has picked a non-chartered accountant to be its chief executive. Robson Rhodes, number 14 in the accountancy pecking order, has hired Ray Pierce, the 45-year-old ex-boss of The Mortgage Corporation, to run its business.

It's the latest in a series of moves to strengthen Robson Rhodes' management. Mel Smaje, director of human resources, joined from Unisys last year and the manager of the group's Manchester office also comes from outside the profession. Hugh Aldous, national managing partner, remains the effective chairman of the firm, but Pierce will control day-to-day affairs from January.

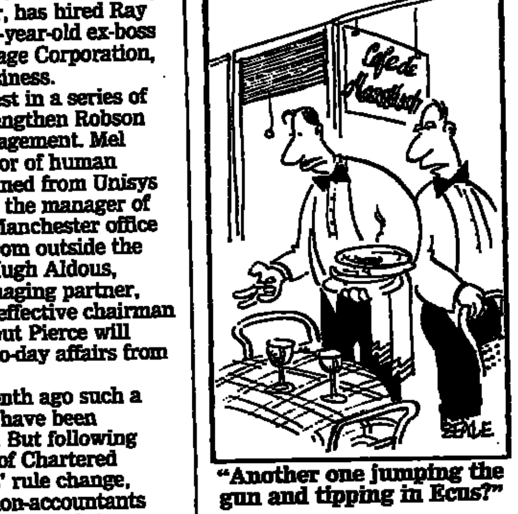
Until a month ago such a move would have been unthinkable. But following an Institute of Chartered Accountants' rule change, permitting non-accountants to become partners, it is now possible to offer business professionals like Pierce a fitting reward.

However, the more traditional bean-counters might look askance on the move. After all, it not the best advert for a profession advising others how to run their businesses, when one of its members has to look outside for someone to run its own.

Inter-twitty

■ British Rail has come up with yet another wizard wheeze. Commuters on peak travel trains between Liverpool Street and Cambridge are being handed leaflets saying "Make the most of your travelling time". Everything from "Art" through "Japanese" to "World Affairs" is on offer in the form of on-board study groups.

Nice idea, shame about the practice. The lady handing out the leaflets had to squeeze past the hordes of standing commuters, and dished them out to seated passengers crammed into spaces which make the turning of a newspaper page a major effort worthy of Houdini. As for tables on which to spread study or work materials, those are but a distant fond memory. "First aid" – another suggested course – might come in handy, were the very notion of it not so risible in the constrained circumstances.



"Another one jumping the gun and tipping in Ecus?"

Tiny's pile

■ It's always fascinating to know what really wealthy entrepreneurs do with their loot. Hence the interest in Tiny Rowland's financial disclosures following the run on the Lonrho share price.

Like the late Robert Maxwell, Rowland is seen by the establishment as an outsider who has brushed with the law. He is also a wheeler-dealer with overseas political connections, owner of newspapers he is not above using for his own ends, and seems to spend much time pursuing his own personal vendettas.

But there any similarities end. Maxwell was an inveterate gambler who borrowed to the hilt for his private gain.

Rowland's personal affairs, by contrast, are portrayed by Lonrho as a model of financial rectitude. The company states that Rowland has over £120m of personal cash on deposit, there are no mortgages on his various houses, and he has not borrowed a penny to pay for his 92 million Lonrho shares (worth £155m).

Beyond that – as Lonrho director Paul Spicer says it would be "undignified" to provide bank statements – Lonrho-watchers will have just have to take his word on his boss's affairs.

Nevertheless it seems an odd investment strategy for an elderly gentleman. Think of it: over half his fortune tied up in a share he is emotionally committed to, and the rest on deposit in banks which might go bust.

Why not spread the risk with some equity blue-chips, US treasury bonds, or even – dare we mention it? – gold

Party trick

■ Throwing one final grand banquet for top officials of the crumbling Soviet empire, the chief apparatchik noticed his right-hand neighbour slipping a gold fork up his sleeve.

"Not a bad idea in the circumstances," thought the chief, stealthily reaching out for a gold dessert spoon. But in picking it up, he accidentally hit it on a wine glass with a chime that made the company fall silent.

Having no choice but to rise and address them, he beamed around and said: "Comrades, I shall not spoil our last grand occasion with a speech. Instead I'll show you a little magic."

Whereupon, after holding up the spoon for all to see, he openly pocketed it. Then turning round, he extracted the fork from his neighbour's sleeve, and laid it back on the table with a flourish.

هكذا من الأصل

The name of a small town in the Netherlands has entered the vocabulary of millions of people across the European Community and beyond, as EC leaders assemble for their most important summit in years. But the word Maastricht conjures up widely varying aspirations and fears. We sent correspondents to visit three twinned European towns – Jimmy Burns to Chesterfield, Alice Rawsthorn to Troyes and David Waller to Darmstadt – to sound out opinion on European integration.

As the Maastricht summit begins, **FT writers** visit three twinned European towns to test public opinion

Little Englanders and good Europeans

Twin peaks: Chesterfield's famous crooked church spire, left; Darmstadt, boasts of a rich art nouveau past

In the office of Mr Bill Flanagan, leader of Chesterfield Town Council, a pair of very English-looking Wellington boots stands side by side with a very German-looking carrier bag from Frankfurt *Main* airport.

Councillor Flanagan, an ebullient miner's son, is buried under a mass of poll-tax related budget projections, and a reminder from the local youth club that a toilet is in need of repair. And yet, when questioned about matters European, he goes into overdrive.

Maastricht is the meeting "we've been striving for for over 30 years ... its a coming together of people." Mr Flanagan, a member of the Labour party, cannot understand why the government spends so much time debating sovereignty and federalism.

"It doesn't matter what they call it," he says. "This is one of the poorest areas in the country. If you haven't got a pound coin it doesn't matter whose head is on it. I'm not a little Englander. The idea that we are separated by a Channel and that makes us different is silly."

Outside the town hall, Chesterfield (population 100,000) is resonant with symbols of Little England. The market, and its most famous landmark, a crooked church spire, date from the Anglo Saxons.

At the Royal Oak pub, one of England's oldest, Mr Harry Ford serves Stones' 'fighting beer' and steak and kidney pie. He says he has no time for Europe or Europeans. "England is England. I'm not bothered by the rest of Europe."

But over the past 20 years, Chesterfield's links have extended in that very direction, to the German town of Darmstaldt and the French town of Troyes with which it is "twinned". The German connection was started by a German priest – a prisoner of war in Chesterfield who was befriended by the locals. Recently, the town's local authorities funded 'civic exchanges' involving school children, higher education students, police, ambulancemen and orchestras.

The town's most prominent Eurosceptic – after Mr Tony Benn, the local Labour MP – is Mr Richard Matthews, a Tory councillor who also works, ironically, for the local chemical plant run by French company, Rhône Poulenc.

Monetary union is something Mr Matthews could "live with". But he rebels against the prospect of a "European power centred on Bonn or Paris", and says EC immigration policies make him "fear for the (English) nation". While he takes his holidays in France, "likes French wines", and has nothing against friendship between nations, he is sceptical about the practical effects of twinning.

"If we were getting some positive commercial advantage from it, we would advertise it. But we are not."

The benefits may be more symbolic at the moment. Chesterfield's Our Town newspaper has a picture of the local Mayor, Mr Bill Jepson, in Darmstadt, officially christening a new tram with the name of its English twin.

Chesterfield's local transport company, Chesterfield Transport, maintains close social and business links with its German equivalent – a relationship which has made the English company's managing director, Mr William Coupar, a stout defender of the European ideal.

A Scot, he confesses to having a particular perspective on sovereignty. "My symbolic identity is tied up with a nation that is not a state. I don't have the same problem that many English people have."

The experience of his own company shows how attitudes have changed since the war, he says. Chesterfield Transport was bought out by its own employees. According to Mr Coupar, such an exercise has not only attracted the interest of companies in eastern Europe, but led the English company to emulate German industrial relations practices. It has established a 'supervisory board' based on the German *aufsichtsrat* model.

According to Ms Glenys Goucher, chief executive of Chesterfield's Chamber of Commerce: "We've got to change our thinking, to stop feeling we're a small island, and realise that we're part of something bigger."

Chesterfield was traditionally a mining and heavy engineering town. But the switch to tourism, the local French presence in chemicals, and the promised start-up of a Toyota factory are all indicators of a changing business evironment which can ill afford to turn its back on Europe.

If the French city of Troyes has a place in the history books it is probably thanks to the treaty of Troyes that Charles VI signed there in 1420 – little knowing that he was paving the way for the English invasion of France.

That event seems to have left its mark, at least on some of the townsfolk, who regard the world of political summits and international treaties with the deepest scepticism – from Troyes all the way to Maastricht.

"De Gaulle was right," thundered Mr Claude Paradis, one of the managers of the Société Générale Bank in the city centre. "I'm all in favour of a unified Europe – but without the British. They want everything their own way. They can join in too, but only if they play by the rules."

Troyes, a city with a population of 60,000 in Champagne country south of Reims and east of Paris, is the odd one out among the three twin towns. It is by far the prettiest, with its wide boulevards and labryinth of 16th-century streets. Textile manufacturing is the biggest employer. But unlike Chesterfield and Darmstadt, Troyes has a rural feel thanks to the vineyards that surround it.

The files on the desk of Mr Robert Galley, the 70-year-old mayor who has been ensconced in the town hall for nearly two decades, make light reading. The power politics of Maastricht seem a long way away.

"Maastricht – what is that?" asks Mr André Deschamps, who travels into Troyes every day to drive his taxi. "It all sounds too political."

"Maastricht is just another publicity stunt," says Mr Michel Kujawa, manager of the Brasserie Vosgienne on the town square. "I don't expect anything concrete to come out of it."

But Troyes also has its fair share of Europhiles. "A unified Europe would be a good thing for France," says Mr Gérard Fardet, who runs a theatre company. "Countries cannot advance on their own these days. The protectionism that Mrs Thatcher talks about is part of history."

Even Mr Paradis suspects that closer European integration would be beneficial. He thinks the local textile industry would be better off if the European Commission were prepared to negotiate more forcefully on its behalf. He is also convinced that "the sooner Europe is unified with a common currency the better. We cannot compete without it."

As modern history unfolds, the people of Troyes might look back to an earlier event. Only a few years after Charles VI signed his ill-fated treaty, Joan of Arc marched into the city and liberated it from the English.

Tucked away on the third floor of the Town Hall of Darmstadt hangs a chilling black-and-white photograph of the city at the end of the second world war. Like nearby Frankfurt, Darmstadt suffered from Allied bombing raids. The picture shows an expanse of charred rubble which could be mistaken for Hiroshima.

Darmstadt rose from the ruins and is today a prosperous city of 137,000 inhabitants. Well-known for its *Jugendstil* (art nouveau) past, the city is a lively regional cultural centre. A conspicuous beneficiary of Germany's post-war *Wirtschaftswunder*, it is the base for several internationally successful corporations, including Wella, a world leader in hair cosmetics. Its Institute of Technology has attracted several high-tech companies and institutes, including the European Space Operations Centre (Esoc).

Unlike Chesterfield, Darmstadt has found a role for itself in the modern world and seems thoroughly at ease with a future in Europe. From the geographical middle of the European market, local people are constantly in contact with other regions and countries. They are enthusiastic Europeans who welcome the prospect of monetary and political union.

"We are already in the midst of Europe," says Dr Wilhelm Brado, the German-born assistant general manager of Esoc. "Closer integration is inevitable and desirable. We like to see ourselves as a model European organisation, drawing on the best that each nationality has to offer."

"I say from the bottom of my heart that it is no contradiction to be both a German and European," says Mr Otto Blöcker, treasurer of the city of Darmstadt and also chairman of the city's European Union, an association of local businessmen and officials. "We want European amalgamation as quickly as possible. The federal system here in Germany – with plenty of power in the hands of the regions – is a good model for the EC."

The enthusiasm is shared by people milling around the shops of central Darmstadt. Few see any specific problems ahead and, strangely, nobody seems to mind giving up the D-Mark – the symbol of Germany's post-war economic success – or sovereignty: the typical observation on monetary and political integration is that "there are bound to be problems but they will be sorted out in time".

It is mainly younger people who are sceptical. "I'm in favour of it all," says one sociology student, "so long as there is no problem with the economy. If our economy stays the same then I'm all for it."

Another says: "Just look at what happened with East Germany. We were all in favour of uniting with the new Länder (states), and now everyone is grumbling at the cost. The same could happen with Europe."

BOOK REVIEW

A ride on the unity carousel

INNENANSICHTEN DER EINIGUNG
By Horst Teltschik
Siedler Verlag, 329 pages

At the side of Mr Helmut Kohl during many of the pivotal moments of the German unification process was the tousle-haired figure of Horst Teltschik, the chancellor's foreign policy adviser. Forced to flee from German-speaking Czechoslovakia as a boy after the war, Teltschik was probably the man in Kohl's "kitchen cabinet" with the greatest emotional attachment to the unity cause.

After 18 years as a loyal, hard-working, opinionated and sometimes impulsive Kohl assistant, Teltschik left the chancellery at the beginning of this year. He has now brought out a fly-on-the-wall account of the diplomatic and political manoeuvrings leading up to the reforging of the German nation on October 3 1990.

This is the story, in semi-diary form, of the dramatic events between the fall of the Berlin Wall on November 9 1989 and unity 329 days later. Neither Kohl nor Germany itself was prepared for the challenge. Teltschik confirms how Bonn's policies during this period had to be continually improvised and adjusted to match the pace of events east of the Elbe. As the unity carousel speeded up in 1990, Teltschik prepared and took part in a dramatic series of talks with Presidents George Bush, François Mitterrand and Mikhail Gorbachev, and with Mrs Margaret Thatcher.

He also carried out important missions on his own – including a secret journey to Moscow in May 1990, detailed here for the first time, with the heads of the Deutsche and Dresdner Banks to arrange credits for the Soviet Union. In the bid to secure Mr Gorbachev's approval for German unity, this type of financial leverage was clearly Kohl's principal asset.

Although Teltschik's writing style can verge on the pedestrian, the book offers some fascinating insights. Teltschik was and is a Kohl admirer – but his independence of mind, mixed with a sense of humour which could border on impishness, led to occasional strains. He indicates the difficulties of working for a boss who could disconcertingly zig-zag between prickliness and warmth. Teltschik could also be tetchy himself. When Mr Kohl achieved a breakthrough in winning basic agreement for German unity from Mr Gorbachev in February 1990, Teltschik records that he was appalled at the "routine" phraseology with which the chancellor wanted to announce the accord to waiting journalists. He interrupted the chancellor's dictation and rephrased the declaration in more epic tones.

Teltschik regarded reunification as fulfilling a national dream. Several times he relates his impatience and irritation at others' lack of enthusiasm or insight. President Richard von Weizsäcker, for instance, was not particularly impressed by Kohl's celebrated 10-point plan for German unity drawn up by Teltschik in November 1989.

The most memorable parts of the book relate to the suspicion towards German unity entertained by Britain and France. When Mrs Thatcher voiced her views that the reunification process should be slowed down, in an interview with the Wall Street Journal last year, Mr Kohl was so angry that he instructed Teltschik to voice Bonn's displeasure to the British ambassador. Another icy scene came when Mr Kohl travelled to Cambridge for a festive dinner with the British prime minister in March 1990. Teltschik records how, at Mr Kohl's insistence, the two drove from the airport to the dinner in separate cars.

With President Mitterrand – and above all with Mr Roland Dumas, his foreign minister – the relationship blew hot and cold several times during the unity saga. Teltschik says that Mr Kohl himself became aware of the "limits of friendship" in his ties with Mr Mitterrand. With Germany a nation of 80m people again, one intriguing question is how resilient this friendship will turn out to be.

David Marsh

LETTERS

No escape, even when stranded on an island

From Mr Gregory Adams-Tait.

Sir, Michael Prowse, in his article "John Stuart Mill's new century" (Dec 2), says that if stranded on an island we would choose democracy but not free markets. He believes we would set up a democratic socialist state.

Is there no escape from such people even on a desert island?

Can you imagine the horror of being shipwrecked and then having to sit through endless democratic meetings about whether you were or were not legally obliged to wear a grass skirt?

The endless applications for planning permission to build a hut, the arguments about minimum health standards of living in a cave, but more seriously the endless disputes over who should do what and who is and who isn't doing enough work?

Oh please.

I would want complete freedom, but, as few people respect that as a notion, there would be conflicts which would, if possible, be sorted out by appealing to the group. This is hardly a democracy. It's more an *ad hoc* court of law.

Next time I climb into a lifeboat, I will, if there is time, check that Michael Prowse is not on board.

Gregory Adams-Tait,
2 The Squirrels,
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Branksome Park,
Poole, Dorset BH13 6AF.

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

BZW's role in Trafalgar House acquisition of Davy Corporation

From Sir Peter Middleton.

Sir, The report on Trafalgar House and its acquisition of Davy Corporation, published only in early editions of the Financial Times of December 4, referred to Barclays de Zoete Wedd's role as joint broker to Trafalgar House, and both merchant bank adviser and broker to Midland & Scottish Resources (MSR).

To avoid any wrong conclusions I would like to set the record straight.

First, BZW did not play "an important part" in compiling Trafalgar's offer document for Davy. It played no part, its role being as arranger of part of the sub-underwriting of the rights issue.

Second, BZW was not "instrumental in drawing up the commercial contract between Davy and MSR". Nor did BZW advise MSR on the contract. We were not aware at the time of the sub-underwriting invitation in June of the likelihood of any difficulties over payment for the platform.

Third, when BZW was invited to undertake that sub-underwriting role we concluded that our 6.6 per cent holding of MSR equity in no way constituted an impediment.

Nothing was concealed: our holding was one of public record. It was announced at the time it arose. It appeared in MSR's annual report. And it was referred to in BZW research published during the rights issue.

Peter Middleton,
chairman,
Barclays de Zoete Wedd Holdings,
Ebbgate House,
2 Swan Lane,
London EC4R 3TS

The case for a correction to avoid German monetary domination

From Mr R A Ledingham.

Sir, Your leader, "Living with Kohlonomics" (November 28), states a reasonable preference for German fiscal probity, as opposed to reliance on Bundesbank monetary correction, in reaction to the economic strains of reunification.

It is interesting to examine why Germany, alone among ERM members, can adopt a monetary policy so inappropriate to the business cycle in the rest of Europe. The divergence indicator limits of the ERM mechanism should prevent such a state of affairs, but clearly these are not working as intended. A divergence indicator shows a currency's divergence against all ERM currencies as a percentage of its possible range.

A divergence indicator for a currency which is greater than +/- 75 per cent results in the presumption that the currency's monetary authority or national government will act to reduce divergence.

In calculating the D-Mark's divergence indicator, its possible range against narrow band ERM currencies is assumed to be 2.25 per cent.

The Dutch guilder, Belgian franc and, arguably, the Irish punt are, however, committed to maintaining a 1 per cent parity against the D-Mark (these currencies, including the D-Mark, comprising almost 50 per cent of the Ecu). It is thus almost mathematically impossible for the D-Mark to achieve a +/- 75 per cent divergence indicator.

A very sound case can be made for changing the calculation of divergence indicators to recognise real divergence limits, thus avoiding complete German monetary domination.

R A Ledingham,
Rose View, Hythe, Oxon

An independent Ukraine and the Nuclear Non-proliferation Treaty

From Prof Norman Dombey.

Sir, Edward Mortimer's thoughtful piece (November 27) on the break-up of the Soviet Union and the importance of ensuring that existing arms control agreements be made binding on its successor states is timely, especially in view of the imminent independence of the Ukraine ("Perilous prospect of going it alone", November 29).

Nevertheless, Mr Mortimer's discussion of the Conventional Forces in Europe (CFE) and Nuclear Non-proliferation Treaty (NPT) agreements misses an essential difference between them.

A declaration by an independent Ukraine that it will accept all the obligations on conventional forces within its territory under CFE will lead to discussions about how to limit those forces, as Mr Mortimer shows. But a declaration by an independent Ukraine that it will accept all the obligations under the NPT will not of itself lead to any limitation of nuclear weapons or the safeguarding of nuclear activities in the Ukraine. For the Soviet Union is a nuclear weapon state under the NPT and is thereby allowed to possess and control nuclear weapons; furthermore, the existing agreement which covers the safeguarding of nuclear materials in the Soviet Union is entirely voluntary. At best, a declaration by the Ukraine that it is bound by Soviet NPT obligations will mean that it must ensure that it has adequate control over nuclear weapons and nuclear-trained personnel in its territory.

It would indeed be technically difficult for the Ukraine to claim anything other than to be a nuclear weapon state, for the basic requirements of a non-weapon-state under the NPT are the absence of nuclear weapons from its territory or under its control and a complete inventory of nuclear materials which can then be safeguarded. The Ukraine is not able to satisfy either of these requirements.

It would be possible for the international community to insist that the only successor to the Soviet Union as a nuclear weapon state is a central authority, but the tragic events in Yugoslavia have taught us the folly of insisting on recognition of a central government not in control of its constituent parts.

Thus the reality is that an even-handed approach will require that both Russia and the Ukraine become recognised nuclear weapon states under the NPT.

This result could have its positive features: the possession of nuclear weapons would be seen as more of an accident of history than an indicator of military or economic power. Furthermore, all nuclear weapon states may then be galvanised into dismantling as many as possible of their existing weapons which serve no useful purpose under present circumstances.

Norman Dombey,
professor of
theoretical physics,
University of Sussex,
Brighton

FINANCIAL TIMES
Monday December 9 1991

Mirror owner may be chosen quickly

By Robert Peston, Raymond Snoddy, Bronwen Maddox and Andrew Jack

THE FUTURE OWNER of the the Daily *Mirror could be chosen* very quickly, according to Mr John Talbot, a partner in Arthur Andersen, the accountancy firm, who was appointed on Thursday as administrator of the Maxwell family's private empire.

In his first interview since becoming administrator of Headington Investments and Robert Maxwell Group, the master companies in the Maxwell empire, he said: "If a bidder was prepared to take the risk [of making an offer before a thorough financial audit of Mirror Group Newspaper has been completed], it is conceivable we could move quickly".

The banks, which took MGN shares as collateral against *loans to the private companies,* said yesterday that they favoured an early sale. "We want to end the uncertainty for Mirror employees and readers", said a banker.

The Maxwell family private companies are in default on these loans, so their 51 per cent stake in MGN is now owned by the banks. The purchaser of MGN will therefore be chosen by them. Six banks – including Lloyds, Midland, Barclays and Goldman Sachs, the US investment bank – control the stake. However, the biggest shareholder by far is National Westminster, which has a 32 per cent MGN shareholding.

The banks will meet the administrator and the board of *MGN this week to decide on* the future of the company. "We will set in train an auction of MGN", said a banker.

The MGN board is in the process of appointing a new merchant bank to advise it on the auction. The favoured candidates are Schroders and Barings. This may come as a blow to Samuel Montagu, the merchant bank which advised MGN on its flotation in May. Montagu tried to put a "ring fence" around MGN to prevent cash being stripped out of the company by Mr Robert Maxwell into his private companies.

However, MGN now believes *that £95m was syphoned out of* its accounts in the late *summer and early autumn.* Because it fears that this money may not be recoverable, it now faces a "cash flow problem", said a banker. So it was forced last week to ask its banks to put in place a standstill on its existing borrowings, preventing the banks from demanding immediate loan repayment.

Over the weekend it was in discussions with its banks to obtain a new short term borrowing facility of around £50m.

But MGN is believed to be trading profitably on a day-to-day basis with signs that circulation of the titles has risen because of the scandal.

Mr Ernest Burrington, MGN chairman, said yesterday: "My aim is to try to stabilise the future of MGN and clean up the mess. I regard it as a duty. There's nothing wrong with the organisation apart from a massive act of criminality."

Meanwhile Mr Joe Haines, a non-executive director of MGN and a Mirror pensioner, backed *the management* buy-out team led by Mr Richard Stott, the editor of the Daily Mirror. A management buy-out, together with Pearson, owner of the Financial Times, and Mr Tiny Roland's *Lonrho* group seem to be the main potential contenders for the titles.

Tangled web, Page 15

Signing up for Europe: Mr Jacques Delors, President of the European Commission, put his name to the European Community flag during a pre-Maastricht rally, as leaders assembled for the historic summit which opens today

Croats pessimistic about EC peace talks

By Judy Dempsey, Eastern Europe Correspondent, in London

THE European Community-sponsored peace conference on Yugoslavia reconvenes today in The Hague but officials in the breakaway republic of Croatia are growing increasingly pessimistic about the EC's ability to end the civil war in Yugoslavia.

Lord Carrington, chairman of the conference, will hold talks with the leaders of the six republics in what Dutch officials described as a "stock-taking exercise" following a month-long lapse of the conference.

Since then, the United Nations has attempted to play a role in ending the fighting between Serbs and Croats.

But unlike previous meetings between the EC and leaders from the Yugoslav republic, today's conference will be presented with a report drawn up by a special arbitration committee set up three months ago by the EC.

The report states that Yugoslavia is legally in the process of dissolution, that the federal institutions no longer exist and that the republics can take unilateral measures for secession from the federation.

"We welcome these findings," said Mr Mario Nobilo, an adviser to Mr Franjo Tudjman, president of Croatia. "They may speed up recognition by the international community of our independence."

However, UK and Dutch officials yesterday stressed that recognition will not end the fighting, nor will it mean that international peacekeeping troops will be sent to Croatia. Mr Cyrus Vance, the UN's special envoy to Yugoslavia, who yesterday completed his fourth mission to the country, insisted again that no troops would be sent until there was a lasting ceasefire.

Mr Vance, who has already drawn up plans, which have received backing from General Veljko Kadijevic, the federal defence minister, Mr Tudjman, and Mr Slobodan Milosevic, the president of Serbia, to deploy UN troops, is expected to report back to the UN later this week.

Meanwhile, Mr Nobilo said there was a lull in the fighting. But Croatian radio reported that seven people were killed after the Serb-dominated federal army launched a rocket on the eastern Croatian city of Osijek; of which two-thirds of its inhabitants are Croats.

He also said that said any lasting ceasefire depended on who controlled the federal army. "I do not believe that General Kadijevic is in control of the army. It was sheer madness the way the army attacked Dubrovnik last week," he said.

Most BT share applicants to be satisfied

By Michiyo Nakamoto in London

ALL existing British Telecom shareholders and 99 per cent of all applicants will receive an allocation in the UK government's sale of BT stock, S. G. Warburg, the chief adviser on the sale announced yesterday.

Private investors who are not BT shareholders and who applied for 500 shares through the specially designated share shops will receive 340 shares. Those who applied for 1,000 shares will receive 500.

As the sale was only 2.5 times subscribed, there was no need to cut applications back *sharply as happened in previous* privatisation issues. The average application from private investors was for 630 shares. Most applicants applied for their shares through share shops set up for the sale.

The government will be announcing the price at which the shares will be sold this morning. This is expected to be around 350p a share. Private investors who hold their shares until March 1993 will qualify for a full discount, and will only pay about 305p. Trading in BT will resume on the London Stock Exchange after *the announcement.*

The government is likely to increase the allocation to retail investors to the upper limit of 1.05bn shares, which means that the 2.8m private investors who applied for shares will get 67 per cent of the total. This will make the sale the largest privatisation issue in terms of the proportion allocated to retail investors. British Gas, sold in 1986, holds second place with 64 per cent.

The international tender offer of institutional investors saw aggressive bidding from the 100 institutions represented *by 10 syndicates. At the market* closing price of 342p last Friday, institutions offered to buy more than three times the amount of shares available, a record for any UK government issue. At 352p, or 10p above Friday's price, offers were double the amount available.

UK institutions did particularly well in the tender, obtaining well over half of the shares on offer.

Warburgs said that the government had saved itself £500m in fees by using a method of sale which eliminated underwriting costs.

US jobs figures

Continued from Page 1

Managers' Index – a gauge of industrial conditions – is flashing red, having declined sharply for two months.

Big statistical revisions have only added to the gloom. New figures for gross domestic product indicate the economy grew at an annual rate of only 1.7 per cent in the third quarter – against a previous estimate of 2.4 per cent.

The bad news is balanced by one or two mildly encouraging signs. Home sales, which normally plunge in recessions, have held up well in recent months. The weak dollar will continue to support US exports. Share prices are surprisingly buoyant. Long bond yields are not signalling economic collapse.

● Peter Marsh in London writes: UK consumer confidence has dipped to its lowest point this year, according to a survey published today which is likely to add to nervousness about the expected recovery.

Fears among consumers about unemployment and the state of their finances have worsened, depressing confidence which had appeared to show a rise in September, according to PA Cambridge Economic Consultants.

Bush at Pearl Harbour

Continued from Page 1

won. We crushed totalitarianism... and we made our enemies our friends."

Mr Bush, who delivered three brief but emotional addresses, spent most of his energy laying the ghosts of the past to rest. He offered an unqualified apology to the 120,000 Japanese Americans interned in the US during the Second World War. This follows a formal apology by Congress and the provision of $1.25bn in restitution.

Mr Bush praised the recent expression of remorse by Mr Kiichi Miyazawa, the new Japanese prime minister, for Japan's attack on Pearl Harbour; he made clear he did not believe a full apology was required. He went further by paying tribute to Emperor Hirohito, quoting US wartime leader in the Pacific Douglas MacArthur that the emperor "played a major role" in Japan's spiritual regeneration.

This magnanimous message – heard on Saturday by some 2,000 ageing Pearl Harbour survivors – clears the way for Mr Bush to address more pressing matters such as trade and regional security during a 10 day tour of Asia and Japan at the end of the month.

Stena tells Sealink to cut costs or close

By Richard Tomkins, Transport Correspondent

SEALINK *STENA LINE*, the crisis-hit cross-Channel ferry operator, will be closed down unless the workforce accepts a *drastic cost-cutting plan* by the end of this month, the company's Swedish owner says.

The ultimatum from Stena Line of Sweden threatens to embroil the British government in Sealink's financial crisis, because it holds a special stake in the privatised ferry operator for defence purposes.

Sealink, *Britain's biggest* ferry operator after P&O European Ferries, was bought from the government for £66m ($116m) by the Bermuda-based Sea Containers in 1984. Stena Line acquired it for £350m in April last year after a long and bitter takeover battle.

The government has retained its special share in Sealink because the company's car and lorry ferries could have an important role to play as troop and vehicle carriers during times of war.

The share demands that Sealink's operation must not be "to the prejudice of national defence".

CRISIS AT SEALINK

Sealink's privatisation should have turned an inefficient state-owned company into a thriving private sector enterprise. Instead, Stena Line's takeover of Britain's second biggest ferry operator has run aground. Page 8

Stena Line's threat to close Sealink follows its September warning that the group was heading for losses of SKr300m ($53m) in the year ending December 31.

Stena Line said profits from the Scandinavian operations had been wiped out by losses incurred by Sealink.

However, Stena Line's minority shareholders have called in independent auditors to investigate whether Stena Line's losses have been exacerbated by certain inter-company dealings with private businesses owned by the Olsson *family, Stena Line's majority* shareholders.

Stena Line is attempting to stem the Sealink losses by axing the Folkestone-Boulogne car ferry route from the end of this month, cutting the workforce of 6,000 by 25 per cent, reforming working practices and introducing a pay freeze until 1993.

Numast, the union representing ships' officers, is strongly opposed to the job cuts and is balloting its members on industrial action.

Mr Lars-Erik Ottosson, Stena Line's chief executive, said Sealink had no future unless the rationalisation plans were implemented in full.

He added: "If we cannot do that, Sealink cannot survive; it has no future at all; it will be closed, and the routes will be started by someone else. We are not going to put any more money into the company, and nor is anyone else, if the business isn't going to survive."

Sealink operates seven routes: Dover-Calais, Folkestone-Boulogne, Southampton-Cherbourg and Harwich-Hook of Holland on the Channel, and Stranraer-Larne, Holyhead-Dun Laoghaire and Fishguard-Rosslare on the Irish Sea.

Stena Line's shares, offered at SKr87 each when the company was floated on the Stockholm stock market in 1988, closed at SKr26 on Friday.

A quiz with no simple answers

JOHN PLENDER

Here, by way of a change from Maastricht, is a short and slightly premature Christmas quiz.

Question one: Who has recently plundered no less than 60 per cent of their employees' pension funds for their own unstated corporate purposes?

Question two: In which recent contested takeover did the target's share price plunge on the initial announcement; the besieged company cut the payout instead of promising increased dividends as far as the eye could see; and the bidder indemnify participants in a concert party against loss, despite fervent denials to the contrary, at huge cost to shareholders, and without going to jail?

Question three: Who incurred the wrath of their *government for rigging the* market and financing organised crime; and then came to be fingered, initially, by the tax man rather than the criminal authorities?

The answer to one is not who you think. Try the German corporate sector, which is estimated to borrow around 60 per cent of the value of occupational pension schemes to finance the underlying business. Nobody worries about this self-investment because there is a government-backed pension guarantee scheme. More important, a very generous state system provides most German workers with a retirement income equivalent to 70 per cent of final pay. How sad for worried employees of the late Robert Maxwell that successive, squabbling British governments have made such a thoroughly British hash of both pension provision and regulation.

The target in two, where the bid tactics were a mite different from those that applied in BTR's contested bid for Hawker Siddeley, was German tyre maker Continental. Last week, it rejoiced when Pirelli's merger approach fell through amid revelations about costly indemnity payments to friends and associates.

Who said that hostile bids do not happen in Germany? Clearly they do nowadays, witness also Krupp's recent aggressive market raid on Hoesch – even if Pirelli never quite got around to making a formal offer and forgot to put a firm price on Continental's head. How on earth did Mediobanca, which advised Pirelli, acquire such an awesome reputation in Italy?

Neither Salomon Brothers nor Al Capone have anything to do with three, which refers to the Nomuragate scandal in which Japan's biggest securities house was attacked for *indemnifying* favoured clients against falls in share values, and shamed by the Ministry of Finance for associating with the second largest of the country's criminal gangs, known as Yakuza.

The purpose of this mini-quiz is partly to underline the fact that our perceptions of other people's capital markets (and, indeed, our own) can be too black and white; but more importantly to suggest that the Anglo-Saxon understanding of good corporate governance and strong accountability has never been an obvious feature of anyone's economic success story, whether it was Britain in the 19th century, or post-war Germany, Italy and Japan.

Where 20th century Britons now see conflicts of interest, German employers, employees, suppliers and creditors are often making common cause. And it is, I suspect, as much a matter of history and culture as the structure of corporate governance. Did you know, for example, that Article 14 of the German constitution declares that "ownership involves obligations" and that "its use should at the same time serve the common good"?

The stable, long-term funds provided to German industry through employee pension contributions, in a classic case of Anglo-Saxon conflict of interest turning into German partnership, are known as social capital. The mission statement of a company like Continental, meantime, places commitment to profit a poor fourth after *commitments to quality, customers* and employees.

How remote it all is from Hawker Siddeley, whose management thought it a perfectly reasonable defence against BTR to propose the sale of 60 per cent of its businesses as a prelude to acquiring countless other businesses; and from BTR, which is now into selling as well as buying. How different from the culture of those Anglo-Saxon fund managers for whom ownership responsibility means passing the paper to someone else. And small wonder that a British government with a 19th century liberal view of the labour markets should have stubbed its toe on the continental Europeans' social charter.

To many British observers the problem is the divorce between ownership and control. Pragmatists seek a solution in better corporate governance; romantics in an implausible return to 19th century-style owner-manager control. To the Germans, and more particularly the Japanese, this seems largely irrelevant. Ownership discipline has played no part in the Japanese success story. Nor is there any need even for two-tier boards in a system where employees of large companies are regarded as the real owners and the composition of the Japanese boardroom is seen as an expression of employee sovereignty.

For all that, the recent appearance of hostile bids in Germany might just reflect a failure of corporate governance. It is striking that the German system has been slow to deal with declining industries and problem companies – not least at Continental in the 1970s.

And that is consistent with the tendency of German industrialists to downplay the influence of bankers and supervisory boards in procuring managerial change. As for Japan, the shortcomings of the "insider" system have been exposed by Nomuragate. The outsiders – high savers who were deprived of the fruits of the great asset price inflation, hard workers who were unprotected by the lifetime employment system – are rebelling.

Corporate governance is undeniably important. But as Keynes remarked in his Treatise on Money: "It is Enterprise which builds and improves the world's possessions...If Enterprise is afoot, Wealth accumulates whatever may be happening to Thrift."

For thrift, read capital *market discipline, corporate governance*, or what you will. Note, though, that he made his point in Teutonic capitals.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	13	55	Berlin	Dr	2	36	Caracas	F	26	79	Faro	C	15	59	Islamabad	F	21	70
Algiers	R	15	59	Biarritz	S	10	50	Casablanca	F	19	66	Florence	S	6	43	Istanbul	Sn	0	32
[illegible]																			

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	21	70	Milan	F	0	32	Nicosia	R	15	59	Salzburg	Sn	0	32	Tenerife	F	21	70
Madrid	R	8	46	Montreal	C	-8	18	Oporto	F	13	55	San Francisco	S	10	50	Tokyo	F	12	54
[illegible]																			

Temperatures at midday yesterday C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

A FINANCIAL TIMES SERIES: Part 10

EUROPEAN FINANCE AND INVESTMENT ITALY

SECTION III

Time to catch up

A wave of mergers and flotations is changing Italy's antiquated banking system beyond recognition, writes Haig Simonian. The changes stem from a belated recognition that the banks – and the stock market – lag behind their European rivals

Milan's stock exchange, currently operating from a temporary building

Trevor Humphries

AFTER YEARS of stagnation, Italy's antiquated banking system is changing beyond recognition, thanks to a wave of mergers and flotations. The philosophy of whether "big" necessarily means "better" has not been seriously questioned, but bigger is certainly what almost every leading bank is now trying to become.

The changes stem from a belated recognition, particularly among the political clans which pull the strings at the country's predominantly state-owned banks, that they lag behind their main European rivals in terms of size, let alone services and efficiency. With the single market approaching, such lapses will become even more serious competitive handicaps in future.

Already, the big banks are racing to buy up smaller counterparts or to consolidate existing subsidiaries to take advantage of special tax breaks, allowed under the new Amato banking law, before the August 1992 deadline.

A similar process of change is under way on the stock market, where the arrival of the Societa di Intermediazione Mobiliare (Sim), Italy's new breed of stockbroker, fund manager and corporate finance institution, is set to overturn the once-cosy world of Italian stockbroking.

While the bank changes have gone relatively smoothly, reform of the stock market has been considerably more painful. In time, the tremors now being felt on the bourse, which has been rattled by plunging trading volumes, financial scandals and broker bankruptcies, will seem no more than tiny blips on the way to a smoothly functioning and internationally competitive financial services industry in Italy.

That is not the case yet. Brokers who are struggling to stay on their feet and customers who wonder whether to continue buying Italian shares have seen one storm after another in the past three months .

Eventually, the Sims, along with other belated reforms such as screen-based equity trading, cash settlement and rules outlawing insider trading and protecting minority shareholders in takeover bids, will create a far more transparent and reliable market. Last month's introduction of screen-based trading in a limited number of shares showed how innovation could prove a tonic to sentiment on the bourse.

Such innovations should eventually help the Milan bourse to shed its "cowboy" image and adopt the status and economic importance that befits the primary equities market of one of the world's biggest economies. If introduced promptly, they will also enable it to make up some of the ground lost to London in equity trading.

With much of the framework in place, it is now up to the participants to make the market work. That means not only brokers and floor traders, whose strikes earlier this year brought the bourse to a halt, but banks and regulators too.

The new rulebook for the Sims requires a shelf to itself, with a complex division of responsibilities between Consob, Italy's companies and stock market watchdog, and the central bank. Consob in particular still requires sharper teeth and a willingness to expand its currently limited Milan operations, even at the expense of its base in Rome. Meanwhile, the banks themselves, which are expected to dominate the Sims, will have to accept new responsibilities for ensuring efficient and fair equity market.

A cleaner bourse is essential if it is to function as an effective conduit for private capital to flow into public sector enterprises in any future privatisation programme, a course of action now apparently more likely than ever before.

The banks are first in the queue. Under the Amato law, public sector financial institutions gained the right to issue up to 49 per cent of their shares on the bourse. In recent weeks, even the 49 per cent barrier has appeared to waver as a result of the government's surging budget deficit and the increasingly strained finances of IRI, Italy's biggest public sector holding company and the owner of some of the biggest banks. Full privatisation may no longer be a pipedream.

IRI has already transferred majority control of Banco di Roma, one of the three big banks it owns, to a joint venture in which it is the minority shareholder; in October, it sold virtually all its non-voting savings shares in Credito Italiano; before long, it may even be tempted or obliged to sell off Banca Commerciale Italiana, still the country's most distinguished financial institution, altogether.

Banco di Napoli, the first public sector bank to float its shares, tested the waters last month with mixed results, owing to controversial pricing. Next in line is Turin's Istituto Bancario San Paolo di Torino, which should tap the markets for at least L1,250bn, and probably a lot more, early next year.

The ability to issue shares will give the banks a huge cash boost and should also improve the position of the bourse by increasing the currently limited number of companies quoted. If fully privatised, they will also reinforce Italy's at present woefully small number of truly "public" quoted companies in the sense of not being dominated by a big family or industrial shareholder.

It is already clear how the banks will spend a large part of their new resources. With the economic growth slowing sharply this year, banks will have to boost provisions, while some may also need to make bigger write-downs on their securities portfolios.

But in the longer term, the cash from flotations will be used to fuel growth – beefing up ratios where necessary on the way. That growth will not come solely through higher lending, but geographical expansion too.

Last year's liberalisation of the rules on new branch openings has already released a torrent of applications. All the big banks have ambitious expansion programmes under way; the focus at the outset is on regions where they are already well represented. But once satisfied, most will want to expand nationwide.

Growth will be spurred by acquisitions, leading to a continuing fall in the number of banks operating in Italy. But the bigger banks are also looking increasingly abroad, where they remain well behind their main European rivals in terms of coverage.

Spectacular takeover bids are unlikely. However, steady purchases of small and medium-sized banks in neighbouring European markets appear inevitable. Such deals may be concentrated in France, Spain and Portugal, where cultural barriers are relatively low for the Italians and where opportunities for an outsider to buy and expand a bank are greater than in the UK, Germany or Switzerland.

In the meantime, foreign banks will continue trying to develop their presence in Italy – despite this year's rancour following the collapse of the Federconsorzi farm services group and its associated Agrifactoring financial services operation. High prices and limited opportunities for bank takeovers have turned what was once expected to be a flood into little more than a trickle. But despite differing domestic pre-occupations for British, French and German banks, outside interest in Italy is still strong.

Will Italian bankers ever venture beyond Europe for their acquisitions? This year has seen a steady flow of small transactions in eastern Europe and the Soviet Union as Italian banks take minority stakes in new international consortia.

Some observers think that at least one bank might try to exploit the current depressed value of US bank assets and the favourable lira/dollar exchange rate by launching a US acquisition. However, even in 1992, the 500th anniversary of the year in which the Italian Christopher Columbus discovered the New World, when Italian banking is set to change fundamentally, such ambitions are limited to a very brave few.

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Editorial production
Gabriel Bowman

FOR THE next 12 months the Italian banking and financial system will have to operate against the uncertain backdrop of a stagnant domestic economy struggling to fall into line with its main European partners.

As the economy tries to fall in line with other European nations...

Growth: wishful thinking

All the official forecasts for this year's economic performance have been too optimistic, singularly failing to predict the extent of the slowdown in manufacturing and the decrease in domestic demand. Even now, the Andreotti government clings to the hope that 1991 growth will be 1.4 per cent, almost half the original aim. More sceptical groups like the industrialists' confederation, Confindustria, predict the economy will grow by less than 1 per cent.

The fall in productive investment has certainly been sharp. The International Monetary Fund in August reckoned gross fixed investment would grow 0.6 per cent against 3 per cent the previous year; while the latest Confindustria estimate is that investment will have declined 1.7 per cent in 1991.

The slowdown is mirrored in the reduced expansion of credit advanced by the financial system which grew 12.3 per cent in the first eight months, nearly three percentage points less than in the same period of 1990. In the private sector demand for credit has switched from funding production to financing stocks, a telling indicator of recession. Meanwhile, the averarge monthly growth in deposits has slowed to under 6 per cent.

The government pretends that 2.3 per cent growth can be achieved next year. At this stage such a projection can only be seen as wishful thinking in the run-up to elections, which are due at the latest by May 1992. Domestic demand is likely to continue depressed while the economic state of Italy's main industrial partners remains unpredictable.

Public sector spending is being contained in a modestly restrictive 1992 budget, intended to hold down the public sector deficit to 10.5 per cent of GDP. Given Italy's commitment to Brussels to halve the size of the deficit as a percentage of GDP, the squeeze on spending will continue if not accentuate beyond 1992.

The 1992 budget envisages a 4.5 per cent ceiling on public sector wage increases. This should bring them into line with private sector wages which have increased at half the rate in the past two years. Even so, private sector labour costs have been rising annually at 8 per cent, nearly double that of France and Germany. An element of indexation remains in wages despite attempts to get rid of the *scala mobile* altogether, and this will continue to inhibit the battle against inflation.

Inflation this year has remained obstinately above 6 per cent, a good percentage point higher than envisaged. The government faces pressure to reduce annual inflation to the 4.5 per cent proposed in the 1992 budget calculations. The budget figures themselves must be taken with some scepticism. The Treasury is attempting to limit its needs to L128,000bn against L141,000bn this year. This means finding an extra L55,000bn to prevent a tendential increase in the budget deficit.

The government has resorted to exceptional measures rather than structural changes to generate income – in particular privatisation (L15,000bn) and a large and controversial tax amnesty (L12,000bn). The latter sources of receipts must be considered highly variable because the success of the amnesty is far from taken from granted, while privatisation is likely to take much longer to prepare and execute – even if there is a firm commitment to carry it out (which is not so evident in a factious coalition government). The entire package is based upon 2.5 per cent growth, and lower growth will inevitably have a negative impact on fiscal receipts.

The need to finance the budget deficit has put pressure on the money supply; but the Bank of Italy insists deficit funding has to come from the market, not the printing presses, and its target has been broadly adhered to. Money supply (M2) increased on average 7.1 per cent in the first nine months against an agreed band of 5-8 per cent.

The L104,000bn deficit in the first nine months was financed to the tune of L94,000bn by treasury bills, mainly medium and long term, with a further L6,000bn coming from abroad. Gross emission of treasury bills totalled L613,000bn, up by L66,000bn on the same nine months in 1990.

Nearly all the budget deficit now covers the cost of servicing Italy's debt which has reached 103 per cent of GDP. The success of funding this huge debt stock through the domestic market continues to surprise outside observers. An important element in the attraction of treasury bills (BOTs) has been the low taxes applied and their anonymity. The BOTs also benefit from the limited choice of investment instruments available to Italian investors.

But this massive reliance on the domestic market means interest rates have to be finely tuned and this year they have had to be kept around 11.5 per cent. The differential with German interest rates has oscillated between 2 and 3 per cent.

The deterioration of the Italian economy is also evident in the external accounts. Exports have remained static in terms of quantity and scarcely increased in value; meanwhile imports rose 2.3 per cent in the first eight months in quantity. This confirms a trend of declining competivity of Italian exports. Indeed between 1985-90 imports grew 44 per cent and exports increased only 27 per cent. According to the Bank of Italy, the balance of payments current account will run a deficit in 1991, equivalent to 1.2 per cent of GDP.

Since January 1990, Italy has been inside the narrow band of the European Monetary System and the lira has devalued by just over 1 per cent: it remains at the bottom end of its band. However, the lira has never moved lower than 757.16 against the D-Mark and at the end of November was trading at around L755 to the D-Mark compared to its maximum permitted of L765.40 inside the narrow band.

The stability of the lira, coupled with liberalisation of capital movement, has been a fundamental plank of economic and financial policy. This has been one of the most successfully managed policies over the past year. Yet as pressures increase on Italy to make its economic and financial system converge more closely with the rest of Europe, questions are bound to be raised about the value of the lira. For the moment the government determinedly rules any suggestion of devaluation.

Robert Graham

Portfolio Investment Flows (Lbn)

	1987	1988	1989	1990
Outward flows				
Multilateral Institutions	4,296	11,261	21,039	46,153
France	669	1,974	2,236	4,450
Germany	2,793	4,559	3,540	4,936
UK	2,017	3,011	2,144	4,707
Luxembourg	1,428	717	1,141	5,961
Switzerland	322	491	2,517	3,596
Japan	1,090	2,715	3,432	6,824
US	3,302	3,325	6,030	8,152
Others	2,749	5,838	10,284	18,471
TOTAL	18,866	33,910	52,383	104,214
Inward flows				
Multilateral Institutions	1,960	6,108	10,352	32,048
France	554	1,856	3,552	3,512
Germany	2,334	3,837	4,303	4,550
UK	1,063	3,313	2,038	3,785
Luxembourg	1,677	2,115	2,456	3,683
Switzerland	209	261	1,699	1,495
Japan	903	1,993	2,771	3,523
US	2,893	2,892	4,737	6,638
Others	2,290	4,435	8,068	21,994
TOTAL	13,883	26,810	38,996	81,229

Source: Bank of Italy

Capital movements

The most active investors

THE liberalisation of capital movements in January 1990 has had a dramatic impact on investment flows, with Italians taking full advantage of the freedom to move funds in and out of the country.

During the course of last year the volume of new portfolio investment abroad more than doubled to L104,214bn, while the net outflow of new funds also rose twofold to L22,985bn. Compared with five years ago, the new registered outflow of portfolio investment has increased sevenfold.

In part, these increases represent institutions and individuals carrying out portfolio investments via the newly legitimised channels and no longer resorting to elaborate means of capital transfer abroad. But much of the movement was accounted for by investors taking advantage of liberalisation to place funds abroad in large quantities for the first time.

Proportionately, private investors have been the most active. In less than three years the share of the latter in foreign portfolio investment has grown from a quarter to nearly half. Private investors have also been more active proportionately in generating inward flows. Thus last year, private investors placed L30,147bn abroad and brought L23,042bn back into the country, compared to L62,784bn and L39,872bn respectively generated by financial institutions.

According to the Bank of Italy, nearly half this investment has been directed towards the purchase of securities issued by multi-national groups and public entities which offer tax exemptions. The latter accounted for 44 per cent of all outward portfolio investment in 1990. Other outward investments were made in securities in the US (7.8 per cent), Japan (6.6 per cent), Luxembourg (5.7 per cent), Germany (4.7 per cent), the UK (4.5 per cent), France (4.3%) and Switzerland (3.5%).

The net outflow of funds has risen sharply in four years moving from L7,235bn to L32,211bn. Nevertheless, the deficit is still relatively small. That said, the bulk of inward investment is in the form of purchase of treasury bills, and since the latter are an essential part of funding the budget deficit, domestic interest rates have to be kept high.

Robert Graham

EXPORT CREDITS

The price of aggression

THE aggressive way the Italian government has provided export credit guarantees to win contracts abroad has long been envied by competitors. However, this policy is costly since the cover has been extended to those countries precisely where the political risk is high, writes Robert Graham.

This year Sace, the state entity which provides medium- and long-term risk cover, expects to pay out indemnities worth Lire 2,400bn (£1.1bn) with provisions for a further rise to L2,800bn in 1992. Indeed, Sace has been obliged to seek an extra L1,800bn in extra funds from the treasury in the 1992 budget to make up the growing shortfall between indemnity payments and income from premiums.

Just over 55 per cent of Sace's exposure lies in two east European countries – Poland and the Soviet Union – and three Opec members, Algeria, Iran and Iraq. Except for Poland, this exposure represents a conscious policy of encouraging trade with countries from which Italy imports energy supplies and with which there are major trade deficits that need balancing.

In all these countries the risks remain uncertain, even if the case of Algeria was resolved at the end of October. In particular, exposure in Iraq to the tune of L3,000bn looks problematical because of continued uncertainties arising from the Gulf War and the persistence of President Saddam Hussein. (The Sace exposure excludes defence deals and nearly L4,000bn at risk on loans extended by the Banco Nazionale del Lavoro).

Meanwhile, credit cover extended to deals with the Soviet Union has been clouded by the breakdown of central authority there and doubts about which entity will or can assume legal responsibility for the contracts. Mr Mario Draghi, director general of the Treasury and Sace's board chairman, went to Moscow at the end of October to clarify the question of legal responsibility, but returned with matters still in the air.

The Italian authorities, like other G7 member countries, are anxious to establish the relationships between the Vnesheconombank (Veb), the Soviet bank in charge of foreign trade, and the new regional/national governments. Sace exposure to the Soviet Union totals L5,600bn.

The growing financial difficulties of the central government have made it essential to delineate and enforce the respective liabilities and responsibilities of the regional/national governments to the Veb. All the more so since Sace has guaranteed credit lines worth L5,000bn over the five-year period 1990-94, on top of direct credit guarantees from the Treasury for L2,200bn. The Soviet Union has yet to draw on the first L1,000bn tranche of the five-year credit guarantee agreement.

Argument within Sace and the Treasury over how to treat Soviet risk provoked the resignation in February of Mr Mario Sarcinelli, the chairman. The debate centred on whether premiums should be raised to cover increased risk and whether Sace should guarantee 100 per cent or merely 90 per cent of the risk. As of now, premiums have not been raised but only 90 per cent is covered.

Sace's undertakings regarding Algeria, a key supplier of gas, are even larger than those of the Soviet Union. In December 1990, the Italian government agreed to provide a total of $7.2bn in credit lines. Of this, $2.4bn was earmarked to repay existing loans falling due in January 1993, another $4.3n to cover the purchase of goods and services in Italy and $300m to cover the supply of steel. The arrangement was held up until last month by disagreements over guarantees for the supply of Algerian methane, the principal form of payment.

Strategic decisions by the government to promote trade have meant that Sace has provided political risk cover to credit lines where other G7 countries have been more cautious or removed countries from export credit guarantee cover. As yet, there is no harmonisation with other EC members on country risk classification. For instance, Italy has been willing to extend credit to debt-ridden Argentina largely because of close links with the Italian community there. However, Sace and the Italian government are under pressure from Brussels to create greater transparency to ensure that political risk cover is not a disguised form of unfair competition.

On average, Sace has covered between 7-10 per cent of annual exports since it was set up in 1977. However, the size of indemnities has doubled in the past five years and over 95 per cent of the monies recovered by Sace now derive from bilateral inter-government debt restructuring agreements.

Sace is controlled by the Treasury, although the board also contains representatives from other ministries. In January, the entity formally moved out of short-term commercial cover to ensure it would not go against EC competition policy after 1992. This was done by an agreement with Siac, the privately controlled insurer in which major Italian financial institutions and industrial groups are shareholders.

Siac will now offer all the policies on short-term commercial cover and will also act for Sace to collect premiums. But Sace will continue to accept Siac's re-insurance business.

Banks: moves towards a more modern structure

The pecking order will be overturned

WITH two steps forward and one step back, Italian banking is gradually moving towards a more modern structure, which should result in fewer, bigger and possibly slightly more international financial institutions.

But although progress, spurred by last year's landmark Amato banking reform, is steady, it is not always smooth. In a banking system dominated by public sector institutions, political factors often overcloud what is already a complex commercial background.

So far, two clear trends have emerged.

■ **Acquisitions.** Two big takeovers now under way will overturn the current pecking order among Italian banks in terms of asset size, toppling Banca Nazionale del Lavoro (BNL) from its perch as the country's biggest financial institution. In its place will be at least two rivals; Istituto Bancario San Paolo di Torino, the big Turin-based bank, and the new banking alliance being formed by Cassa di Risparmio di Roma, the Rome savings bank.

San Paolo's growth has been boosted by the purchase of Crediop, the big Rome-based medium- and long-term credit institution, in which it took an opening 29.7 per cent stake in March 1989. Since then, links between the two have grown, with San Paolo transferring all its public works lending activities to Crediop, which specialises in such business, soon after buying its first tranche of shares.

Last October, San Paolo, whose Crediop stake had edged up to around 40 per cent in the meantime, received the go-ahead to buy another 50 per cent holding owned by the Treasury. The sale forms part of the government's ambitious plan to raise L15,000bn through privatisations and asset sales in the next year.

Crediop is not coming cheap. The deal, based on a valuation by Kleinwort Benson, the UK merchant bank, gave it a L4,200bn price tag. San Paolo will have to cough up around half of that for its newest stake, while the government will retain a 10 per cent holding.

The deal offers San Paolo little in terms of branches or retail coverage, as Crediop is very much a specialist wholesale lender. But with total assets amounting to L36,379bn at the end of last year, the acquisition will propel San Paolo to the top slot among Italian banks in asset terms.

Rome is also the scene of the three-way merger of Cassa di Risparmio di Roma, Banco di Santo Spirito and Banco di Roma. The Rome Cassa, run by Mr Cesare Geronzi, was already expected to take over Banco di Santo Spirito, formerly owned by the IRI state holding company, after buying an opening 51 per cent stake in 1988.

The IMI-Cariplo merger has a tortured political history

But late last year, Mr Geronzi scored a much bigger coup by persuading IRI to sell Banco di Roma, one of the three big IRI-owned "banks of national interest" too. After a complex series of moves, including the partial stock market flotation of Santo Spirito, the Rome Cassa is now the main shareholder in a holding company which owns all three banks.

The formal takeover of Santo Spirito was completed last month, while the incorporation of Banco di Roma will follow in April. When completed, the resulting institution, to be called Banca di Roma, will be Italy's second biggest bank, with total assets of at least L130,000bn. However, it looks likely to be number one nationally in terms of branches, with over 1,000 branches, concentrated in central and southern Italy.

Italy's third big banking merger, involving Istituto Mobiliare Italiano (IMI), the big Rome-based investment banking and financial services group, and Cariplo, Italy's biggest savings bank, has been under discussion for almost as long as the two other deals.

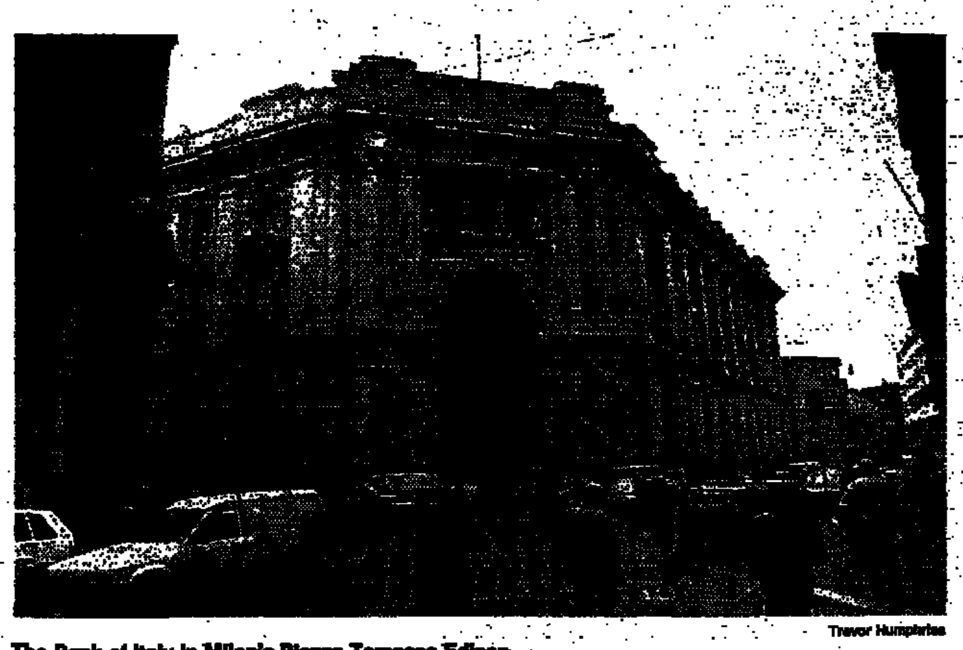
But it has had a much more tortured political history and looks as uncertain as ever. The main problem has been political opposition, principally from the Socialist party, to another big takeover by a bank strongly identified with the majority Christian Democrat party. Cariplo, like San Paolo and the Rome Cassa, falls very much into that category.

But the Socialist position is also part of the wider, highly politicised, debate over the future of BNL. Although its earnings are improving, BNL's image and profitability have suffered badly as a result of the scandal at its Atlanta, Georgia branch in September 1989, where around $3bn of unauthorised letters of credit to Iraq came to light.

Although owned by the Treasury, the bank is closely associated with the Socialists. Party leaders are now demanding a government cash injection or a forced marriage with a healthier bank to restore BNL's fortunes. In either event, the party would expect to consolidate its position in Italian banking by having a major say in management appointments at the bank.

This background has made the already difficult commercial discussions over an IMI-Cariplo merger even more complicated. To minimise the political impact, Cariplo had suggested buying IMI jointly – albeit under its leadership – with a small group of other big north Italian savings banks.

Even that solution collapsed after the recent decision by some members of the pact not to proceed. Supporters of the deal, including the Bank of Italy, are now searching for other candidates to join Cariplo's pool. Meanwhile, the simplest solution, a direct takeover by Cariplo alone, remains politically blocked.



The Bank of Italy in Milan's Piazza Tomasso Edison

Trevor Humphries

Several smaller acquisitions have also taken place in recent months. Last October, Banco Ambrosiano Veneto (Ambroveneto), the fast-expanding north Italian bank, paid L345bn for over 92 per cent of Citibank Italia, the 46-branch southern Italian retail banking operation owned by the big US bank.

The deal will give Ambroveneto, already Italy's largest private sector bank, a big boost in Naples and the south, where Citibank Italia, previously known as Banco Centro Sud before being bought by the US bank, is concentrated.

Even Banca Commerciale Italiana (BCI), still probably the country's most prestigious bank, despite San Paolo's presence on its heels, has succumbed to the takeover wave. Last August, it spent L130bn to buy an undisclosed stake, believed to be 51 per cent, in the 61-branch Banca Sicula, one of the largest banks in Sicily.

Some other important acquisitions are still pending. Most prominent among them is the rescue by Monte dei Paschi di Siena of the Cassa di Risparmio di Prato, the city of Prato's savings bank. The Prato bank has been badly hit by the economic crisis facing the city, particularly in the textile industry. If the deal comes off, it will reinforce Monte dei Paschi's existing dominance in its home region of Tuscany.

■ **Flotations** are the second facet of the fast-changing domestic banking scene. Under the Amato Law, public sector banks have gained the right to float up to 49 per cent of their ordinary shares on the bourse.

The first deal of the type took place last month, when Banco di Napoli floated 100m new ordinary shares, corresponding to around 20 per cent of its capital. Many more such transactions will follow as other big banks undertake the complex and time-consuming course of changing their statutes to become joint stock companies (SpAs) and taking the plunge to go public.

San Paolo looks next in line. Last month it announced plans for a rights issue of at least L1,250bn. The final figure could be a lot more, depending on the premium the bank charges over the nominal value of the new shares being issued. As with Banco di Napoli, around 20 per cent of its capital will be floating once the deal takes place, probably next April.

Next year promises a flood of other bank flotations, as many other state or municipally-owned banks become SpAs. But by no means all of those changing their statutes to become joint stock companies will go the whole hog and go public too. Cariplo for one has so far eschewed any plans for a flotation, despite having taken the necessary steps to become an SpA.

Meanwhile, a number of secondary share placings are also on the cards. The IRI-owned banks will be affected. In October, IRI raised around L210bn by selling 115m non-voting savings shares in Credito Italiano, one of the two Milan-based banks it controls. Following the deal, the proportion of Credito Italiano savings shares it owned fell to 17 from 56.9 per cent.

With financial pressures on IRI mounting, a similar move may be on the cards for its stake, currently around 30 per cent in the holding company controlling the new Banca di Roma. When a placing will come is not clear, but bankers close to the deal doubt IRI will retain so large a holding in the new bank by the time it is formed next April.

An even more radical step may be planned for BCI, the jewel in IRI's banking crown. With talk of privatisation growing daily, some observers think BCI may be the first of Italy's public sector banks to be privatised in the true sense of the word, with the state giving up more than 50 per cent of the ordinary shares. So far, IRI has given no sign of such revolutionary thinking. But it may only be a matter of time.

Haig Simonian

SYNDICATED LOANS

Federconsorzi — and after

THE COLLAPSE earlier this year of Federconsorzi, the Italian farm services group, has squeezed the availability of financing for other Italian state borrowers in the syndicated loan market. However, borrowers have recently started returning to the market.

Throughout the summer, some banks refused to lend to Italian state borrowers as a protest at the government's failure to make good their exposure to Federconsorzi, which was state-owned but not government-guaranteed. The banks argue that the Italian government is relying on a legal technicality.

The collapse left Federconsorzi with debts of L4,200bn. The impact has been magnified by the heavy reliance of many Italian state agencies on the syndicated loan market.

Since the summer, several [d]eals have been put on hold or [de]layed. Funding costs have [in]creased, and some borrowers, [su]ch as Mediocredito Centrale, [ha]ve resorted to private loan [ar]rangements.

The top state-owned borrow[er]s, like Ferrovie, the railway, [an]d ENEL, the electricity util[ity], may have relatively heavy [fun]ding requirements, but they [als]o have easy access to a [ran]ge of financial markets.

[A]t the other end of the spec[trum], small financial institu[tion]s have been heavily reliant [on t]he syndicated loan market, [and] would find it hard to raise [fund]s elsewhere.

[Re]cently, even though the [issue] of Federconsorzi's debts [to ba]nks remains confused, [some] borrowers have started [to retu]rn to the market.

[At th]e end of last month, [...]ide, the Italian motor[...]rator, completed the [...] for an Italian state borrower since the Federconsorzi problems arose.

The deal had been postponed and then reduced because of financing difficulties in the sector. But in the event, it was oversubscribed and increased from Ecu100m to Ecu125m. The underwriting group for the seven-year deal included several Japanese banks. These have previously been among the strongest critics of the handling of the Federconsorzi issue.

Other loans currently in the market include an Ecu100m term loan maturing in 2002 for Monte dei Paschi di Siena, a $138.5m deal for Instituto di Credito Fondiario delle Venezie and a L75bn loan for Isveimer.

Some borrowers which have previously been restricted to the syndicated loan market are trying to spread their reach into other markets.

For example, the finance arm of Ilva, the Italian steel company which is part of the government-held IRI group, raised $150m through an issue of floating rate notes last month. An FRN is something of a hybrid of a syndicated loan and a fixed-rate bond, in terms of its investor base – still held largely by banks, but more widely held and traded – than a loan.

Merrill Lynch, the lead manager, said the deal was "a first step" towards widening Ilva's investor base, estimating that around 40 per cent of the deal will be held by existing bank investors, with the remainder reaching a wider audience.

However, there is unlikely to be a mass desertion from the syndicated loan market to the more credit-sensitive FRN market.

Tracy Corrigan

FINANCIAL TIMES

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Euromobiliare, the merchant bank, is profiled by **Haig Simonian**

Midland's link to Milan

WITH THE shareholding balance in Euromobiliare, the Milan-based merchant bank, now having tipped decisively in favour of the UK's Midland Bank after its purchase in March of a further 4.9 per cent, it could be argued that the company is in danger of losing its domestic identity.

But despite Midland's hold over 54.6 per cent of its shares, Euromobiliare is still very much an Italian bank. Where else, for example, could former arch-rivals like Mr Carlo De Benedetti and Mr Silvio Berlusconi be found on the same board?

The fact that Midland's majority ownership has been barely noticed, let alone commented upon, reflects the depth of Euromobiliare's local roots and the discretion with which the latest exchange of shares took place.

Founded as a small finance house in 1973 by Mr Guido Roberto Vitale, its chief executive, Euromobiliare in 1987 became the first private sector company in Italy to get a banking licence in over 40 years. Since then, its range of activities has grown while total staff now exceeds 200.

It has not been plain sailing. Write-downs on securities holdings left the bank, currently capitalised at around L180bn, with a L13.8bn loss in 1987-88. But profits have recovered, although comparisons are complicated by the shift in 1989 from a June to a December year-end. In the first half of this year, group net earnings remained virtually static at L7.6bn, while the full-year 1991 figure will be "broadly in line" with the L9.5bn made after tax in 1990, says Mr Vitale.

Midland's majority ownership coincides with a period of change at the bank, which is adopting a holding company structure. While the parent company will take charge of specialised finance and development capital, separate subsidiaries are being created for commercial banking and treasury operations, equity trading, mutual funds, mortgage lending and merchant banking.

The idea is to shift from the narrower UK type of merchant banking, based primarily on corporate finance and trading, towards the broader French and German models, says Mr Vitale. "We will have to develop more mainstream banking, more equity investment in industrial companies and more lending.

"Our philosophy has always been to be broadly based, and it will remain so. But none of the segments in which we operate has been really deep enough to make a steady living. I think this is the right structure now."

Commercial banking is expanding slowly, with the opening in July of a new branch in Florence to supplement the office in Milan. Meanwhile, equity trading will gain weight with the creation of a Societa di Intermediazione Mobiliare (Sim), Italy's new breed of equity broking and fund management operation.

But despite the changes, corporate finance, for which the bank remains best known, will retain a central role. Euromobiliare claims to have the second largest corporate finance team in Italy, much of whose time is spent on M&A.

While 1989 and 1990 were characterised by a large number of small deals, this year has stood out for fewer, larger transactions. The biggest – and probably this year's largest domestic M&A deal – was the L504bn sale of a controlling stake in Latina, the insurance company controlled by the De Benedetti group, to Fondiaria, the Florentine insurer. "It was important to us to have one big deal after so many small and medium-sized transactions," says Mr Vitale.

Valuations have also grown in importance. Many of the most conspicuous mandates for privatisation-related deals have gone to foreign merchant banks, causing some anger domestically.

But Euromobiliare has had its slice of the cake. It has won the mandate to value Italstat and Italimpianti, the civil engineering and plant building subsidiaries respectively of IRI, Italy's biggest state holding company.

That has involved a plethora of valuations, as both Italstat and Italimpianti, which will merge to form a single company called Iritecna, have dozens of subsidiaries. "Euromobiliare has had to value around 75 subsidiaries with sales of over L10bn, let alone many smaller ones", says Mr Vitale.

Guido Vitale: not so many visitors now

Last month saw the realisation of another long-running project, with the appearance of L'Indipendente, Italy's newest daily newspaper. The project stems from an approach in 1989 from Mr Ricardo Franco Levi, the editor, who had been impressed by The Independent in the UK.

"We saw the venture as good and timely", says Mr Vitale. Euromobiliare raised the capital, finding seven shareholders, who have bought 70 per cent of the company, and distributing a further 25 per cent in smaller packets among 21 individuals. The remainder has gone to management and journalists.

Although now completed, the process took longer than expected owing to the uncertainties caused by the long-running battle between Mr De Benedetti and Mr Berlusconi for control of the Mondadori media group, especially its newspaper assets.

Yet despite the role of such deals in underlining Euromobiliare's Italian identity, its UK parent is becoming more evident. Co-ordination with London has developed in treasury products like swaps and derivatives and in distributing Italian government bonds abroad.

Corporate finance and venture capital links have been tightened, with staff commuting regularly, and also spending extended periods in the City. Conversely, visits from Midland's top brass have declined. "At first they wanted to get to know the people and what they'd bought, but now there are not so many visitors," says Mr Vitale.

Euromobiliare's investment banking activities will soon become even more closely identified with Midland's international activities, operating under the Samuel Montagu banner.

Montagu has always been active in Italy. Last month, it won a mandate to arrange the sale of Cementir, IRI's cement subsidiary. And last year, it acted for the Brazilian vendor in the sale to the Ferruzzi group of a stake in the Telemontecarlo television station.

Under the changes, the new subsidiary responsible for Euromobiliare's investment banking activities, including M&A, specialised finance and venture capital, will be renamed Euromobiliare Montagu. Hardly a revolution, but a sign that a slap of international polish can benefit even an Italian bank's image.

Haig Simonian looks behind the SBC/M&A nameplate

A Swiss slice of the action

THE letters SBC/M&A on the unostentatious nameplate give little away. But once inside, one of the more unusual foreign-owned corporate finance ventures currently active in Italy comes to life.

Now wholly-owned by Swiss Bank Corporation (SBC), the operation was established in 1983 as Mergers & Acquisitions, a purely Italian initiative by Mr Enrico Minoli. He aimed to tap into the growing market for corporate finance and mergers and acquisitions services for smaller and medium-sized Italian companies by using professional contacts in accountancy and the law.

In July 1989, SBC took 70 per cent in the company, which is now its only operation in Italy. "We were looking for a company with a good track record," says Mr Giovanni Orlando, the SBC executive who is now managing director alongside Mr Minoli. "Even today, most big UK and US houses handle Italy via specialised London-based marketing teams, who bring in product and execution people for big transactions.

"But if you take out the cream – the two or three biggest deals each year – you are left with a lot of deals which the world doesn't know about, but which are still very interesting. It was traditionally a business for professionals, not institutions."

Given its origins, SBC/M&A has kept its focus on small to medium-sized sector. But by using the cachet and contacts available since SBC moved in, greater emphasis has been put on forging links with Italy's biggest concerns too.

"The result of the integration means we have kept the small and medium-sized market, which is important in Italy and not entirely covered by the big international houses, with the traditional SBC client base added to that as well," says Mr Orlando.

The office now employs 10 professionals, most of them from SBC, with the remainder, stemming from the original operation. Last year, it vied with Euromobiliare for the top slot in a league table of M&A advisers. That ranking is likely to be repeated in 1991.

Most of its deals still come from small and medium-sized companies. That may partly reflect the current slowdown in the Italian M&A scene and, perhaps, the difficulties even for SBC of breaking into the biggest transactions.

In 1990, it handled the merger of the SAIMA and Avendero transport services groups to form the biggest company of its kind in Italy. The same year it also advised on the amalgamation of the Fondedile and Icla building concerns, which now rank among the country's 10 biggest construction groups.

Big companies have not entirely escaped its grasp. Last year, SBC/M&A advised Enimont, the chemicals group then still jointly owned by ENI and Montedison, on the sale of its Auschem and Sclavo subsidiaries.

This year has also brought a sizeable single transaction advising Cragnotti & Partners, the ambitious investment banking operation established by Mr Sergio Cragnotti, the former Enimont chief executive, on the purchase of a $600m 50 per cent stake in the Ja/Mont paper joint venture. Contacts between Mr Cragnotti and SBC/M&A look set to flourish, although competitors may well attribute that to SBC's position as the biggest single shareholder in Cragnotti & Partners, in which it spent L45bn on a 10 per cent stake last year.

Apart from mergers and acquisitions, SBC has also been buying stakes in big Italian family-owned companies. The policy, begun in late 1989, has now resulted in a list of investments which includes Belleli, the Mantova-based plant building and engineering group, Cagiva, Europe's largest motorcycle manufacturer and the Cerutti textiles group. More recent stakes include Legler, Europe's biggest denim manufacturer, Trevitex, another textiles group and the Salvagnini machine tool manufacturer.

"The idea is to establish ourselves as the Hausbank, or permanent adviser, for corporate finance services to these companies," explains Mr Orlando. The link between investor and advisor is understandable. "In order to make an investment in a business, you have to get to know that company inside out. In the end, they come to trust you as a credible partner."

The search for suitable investments has gone well. But like other foreign bankers after equity stakes in non-quoted companies, Mr Orlando admits that the current economic slowdown has led to more cautious approach to investing.

That has been reinforced by the fact none of the companies in which SBC has participated has yet gone public. The bank stresses that it has set a time-frame of three to four years for realising its holdings, and that the lack of flotations stems from external circumstances rather than problems at the companies themselves.

"The performance of the stock market has been so disastrous that we have refrained from making our investments grow," says Mr Orlando. With share prices depressed and the bourse, overshadowed by scandals, currently in transition, most family owners hardly find the timing for flotations ideal.

The bank has no ceiling to how much it is prepared to plough in. But, as Mr Orlando explains, "if we had seen returns from our investments, it would have been easier. For the moment, we're sitting on the fence."

However, the bank's profile may rise well before any moves on the stock market front. Last month, it was appointed by the court handling the affairs of the bankrupt Federconsorzi farm services group to arrange the sale of its Fedital foods subsidiary.

Fedital, which has also experienced financial difficulties, is best known for its Polenghi Lombardo dairy and cheese subsidiary. Polenghi holds around 5 per cent of the Italian market for long-life milk, with its share rising to around 30 per cent in parts of southern Italy such as Sicily and Calabria.

Offers for tender were put out last month. It is possible that a second round of bidding may be required. But it is already clear that foreign and Italian candidates are interested. With its desire to take part in bigger-ticket business, SBC/M&A will welcome the prominence that brings.

European investors join in, writes **Tracy Corrigan**

Bonds in the limelight

IN THE course of 1991, the Italian bond market has been transformed from a largely domestic marketplace into an actively traded international market, with future and option contracts traded on the underlying bonds.

Technical and economic changes have thrust the market into the limelight. Italy has benefited from the most important investment strategy this year: convergence – the theory that economic conditions in EC countries are moving closer together, pushing down rates in high-yielding European markets.

Italy was an obvious candidate, and in the year to date, 10-year bonds have posted returns of 18 per cent, according to Midland Montagu Research.

The view becomes less risky to execute when Italy entered the narrow band of the exchange rate mechanism early in 1990. The substantial reduction in currency risk proved a catalyst for the participation of European investors, according to traders.

Italy boasts the third largest bond market in the world after the US and Japan, but until recently lagged much smaller markets in terms of international investment and trading. Despite huge borrowing needs, the Italian authorities had done little to reform the market.

Most of the debt was in floating rate form, of short duration, and relied on a mainly domestic retail investor base. Only in May 1990 did the Treasury extend fixed rate maturities beyond five years, with its first seven-year Buoni del Tesoro Poliennali (BTP).

In February, the first 10-year BTP was issued, and subsequently the Treasury has pursued a programme of BTP issuance which has shifted the profile of its debt towards longer maturities, resulting in a surge in international participation.

A total of L227,470bn of BTPs is now outstanding, and around 40 per cent of the estimated average daily volume of L6,000bn is estimated to be channelled through London.

Another crucial change has been the reform of withholding tax rules, which involved simplifying the process for foreign investors to reclaim withholding tax. The changes to the system for obtaining withholding tax refunds on Italian bonds were announced in late April but did not bear fruit in September. As investors in London at last began to receive their cheques, confidence in the efficacy of the new system soared, providing a further fillip for the market. But many analysts believe that at some stage Italy will have to fall in line with other European markets by paying interest gross to non-resident investors.

Against a background of strong performance, internationalisation and convergence, two futures contracts were launched on Italian BTPs in September. In the subsequent struggle for dominance of the market, the London International Financial Future has gained the upper hand, recording volume of 181,532 contracts for October, with open interest at 17,909. The strong level of demand for the future contracts prompted an option on the future contract, launched at the end of October.

Meanwhile, volume on the rival BTP contract on the Matif, the French futures exchange, reached only 26,277 contracts with open interest at 5,693 contracts.

Now that Liffe has gained the critical mass, business is naturally skewed towards the London exchange, because the Liffe contract has proved liquid.

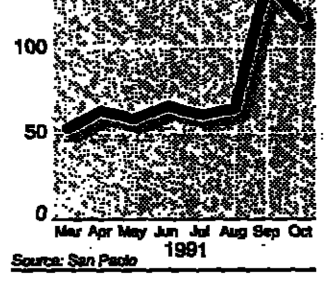
Meanwhile, the Italian authorities are keen to develop their own futures market as quickly as possible. The Italian futures market will be added to the existing screen-based cash bond market.

In November, the Bank of Italy, Consob (the regulatory authority), and the primary dealers in the cash bond market reached an agreement in principle on the structure of the new market, and a formal, written agreement is expected soon. The primary dealers will be the shareholders and members of a new clearing house, created to serve the futures market.

The target date for the launch of the new market is June. Some bankers remain sceptical about the practicality of getting the market off the ground in six months, because of the number of different interests – the Bank of Italy, the Treasury, Consob, the Association of Italian Banks and the primary dealers – to be complied with.

But so far the Bank of Italy appears to be on schedule, with the necessary ministerial decree already in draft form, and purportedly few technical difficulties to contend with, given that the trading system is already up and running, and will only need to be adjusted to cope with futures.

Trading volume in BTP/CTO bonds



Source: San Paolo

But the creation of a domestic futures market is not a prerequisite for the market's development, since the Liffe products already provide a liquid market for hedging exposure. The futures market also facilitates activity in the Euro-lira bond market, because it can be used to hedge swap positions, when the proceeds of Eurobonds are swapped into other currencies.

Arbitrage opportunities for borrowers wishing to raise cheap funds have coincided with strong demand for lira paper, boosting new issue activity in the Eurolira bond market so far this year to L11,280bn, compared with L6,925bn last year, according to IFR Bondbase.

The strong performance of the Italian bond market faded somewhat last month. The currency came under pressure, when the D-mark rose against the dollar, putting a strain on a number of European exchange rates and prompting speculation that there could be a realignment of currencies in the exchange rate mechanism.

The prospect of a general election early next year also raises questions for the government bond market. There is increasing pressure on the government to reduce the high level of public debt, but the issue remains politically charged, and there are calls for changes to the political structure to make it easier for future governments to tackle the issue, for example by reducing public expenditure and making the tax system more efficient.

If a new government committed itself to reducing the level of outstanding debt, the resulting decline in the supply of paper could provide a further boost for the market next year.

SCREEN-BASED TRADING

Stocks clear first hurdle

ITALY IS one of the last countries in Europe to introduce screen-based trading on to its stock exchanges. For comparison, the facility has been available on the smaller Portuguese bourse since last September.

After a long series of delays caused by technical problems and additional demands from the Consob, the stock market watchdog, screen-based trading in a limited number of second-line stocks started last month. They include Fiat preferred shares, and the ordinary shares of Ferruzzi Finanziaria, Banca Commerciale Italiana, CIR and Ras.

Dealers were quietly pleased with the successful start, which confounded the sceptics vho had expected the system › fall at the first hurdle. The ımber of stocks traded via e screens should rise to ween 30 and 40 – about 85 cent of the stock market capitalisation – by the middle of next year.

Proposals for continuous trading were drawn up in 1985 after the stock exchange authorities decided that a new system was needed to take over from the antiquated, open outcry method still in use. Continuous trading was seen as the most obvious way to increase stock market transparency and to allow orders to be executed throughout the day instead of being limited to one "fixing" during the bourse's two-hour trading session.

At that time, the authorities decided that the system would link Italy's 10 stock exchanges electronically, rather than let them die out. The reasoning behind this step was that the network of smaller exchanges in Rome, Genoa, Naples, Turin, Bologna, Florence, Palermo, Trieste and Venice was necessary for the development of Italy's many small enterprises which might want to raise cash via the stock market in the future.

Mr Lucio Rondelli, president of the Generale Telematico di Borsa, the company responsible for setting up and managing the new system, says it is inevitable that most of the daily activity will be conducted in Milan, which already accounts for more than 90 per cent of the country's trading volume.

The start-up of screen-based trading, based on the system used on the Toronto stock exchange and at a total cost of some L30bn footed by the industry ministry, has not been made easy by those who are destined to use it. Many of Italy's 600 procuratori or floor traders fear that their livelihood will be taken away from them and have boycotted the training courses. But the stockbrokers, especially those who have foreign clients, are generally in favour of the change.

Use of the terminals will free until the end of the year but from next year there will be an annual subscription of L15m (£6,900) per terminal, rising to L24m in 1993. From next year, stockbrokers will be able to apply for a terminal in their offices, thus dispensing with the need to go down to the trading floor.

The transaction costs – L2,000 for each order – have come in for criticism from the banks, especially if one large order can only be filled by several, smaller contracts at different prices. But the banks will have to get used to this, because the stock market reform has outlawed the old practice of bunching small orders into one big order to save on commission costs.

Antonia Sharpe

SHARE TRANSACTIONS

Monte Titoli's hidden vaults

SEEMS a contradiction in s that Italy, which has one urope's most antiquated exchanges, should also a modern and efficient ntral depository for securities certificates.

Based in Milan, the seat of the largest of Italy's 10 stock exchanges, Monte Titoli was up and running in 1982 for Italian investors and for foreigners two years later. Yet it became widely used only after 1986, in the wake of a collapse in the physical delivery of shares in Italy.

Fund managers and stockbrokers, especially the foreigners, remember only too well when the old system broke down during the stock market's record-breaking rise in the latter part of 1985 and the first five months of 1986 which triggered an explosion in trading volume. One London stockbroker shudders when she recalls barging into the office of a Milan stockbroker to demand where her client's shares were. A Milan broker remembers when a pile of share certificates came to light, but no one knew whom they belonged to.

Mr Dino Abbrescia, general manager of Monte Titoli, says that the confusion could have been avoided had the domestic stockbrokers and investors understood their roles correctly. But the potential users of the system had doubts about the legal nature of depositing securities with Monte Titoli and they were also scared that the taxman would find out who the real owners of the certificates were.

A law passed in 1986 overcame all these interpretative doubts and also permitted the "fungibility" of securities – that is, they are not tied to any one depositor – which is the basis for the centralised custody and administration of securities.

This development had virtually eliminated the physical movement of securities certificates, which is not only risky but also costly and time-consuming. Use of the system is voluntary, though it has been so successful that Mr Abbrescia estimates that almost all the shares on the Milan bourse which are free-float (more than 50 per cent of the market capitalisation is held in firm hands) are deposited at Monte Titoli.

Monte Titoli does not know to whom the shares and bonds lodged with it belong, as they are deposited in the name of the bank, broker or Sim through which they have been bought

Monte Titoli does not know who the shares and corporate bonds lodged with it belong to, because they are deposited in the name of the bank, stockbroker, and from January, the Sim through which they have been purchased. The transfer of ownership is conducted by book entries in the appropriate deposit accounts while the certificates themselves are kept safe in Monte Titoli's vaults.

Monte Titoli also deals with the administrative side of dividend payments and capital increases on behalf of the depositors, but Mr Abbrescia stresses that the corporate rights – for example, attending annual general meetings – belong to the owner of the shares.

The existence of Monte Titoli is crucial to the success of the stock market reforms which come into force in January. From 1992 all intermediaries who have a current account with the *Stanza di Compensazione*, the clearing house of the Bank of Italy, must also have an account with Monte Titoli. This new rule will facilitate the reduction in the settlement period, from six weeks to three days, due at the start of 1993. "The clearing house will tell Monte Titoli which account to debit and which account to credit," Mr Abbrescia says. This new "matching" system will reduce misunderstandings among traders and the number of unmatched bargains.

In addition, Mr Abbrescia adds that "moral suasion" from the authorities will encourage the more reluctant intermediaries to use Monte Titoli. This will help eradicate a fundamental problem of the old-style bourse, whose image has been tarnished by several instances of brokers being caught illegally using their clients' shares or funds as collateral for their trading positions.

Monte Titoli will provide an administrative service for the foreign shares listed in Milan. Bayer and Volkswagen of Germany made their debut last August and more are set to follow.

Monte Titoli is a private company, 42 per cent owned by the Bank of Italy, 55 per cent by the banks and the rest by stockbrokers, and it is controlled by the Bank of Italy and Consob, the stock market watchdog. It is a non-profit-making organisation and it is encouraged to limit its spending. The tariffs are approved by the Bank of Italy and Consob and are linked to the service requested by each depositor. Ironically, the increase in volume over the past few years has actually brought costs down.

Monte Titoli SpA, Via Mantegna 6, Milan 20154. Tel no: (02) 34 52 141

Antonia Sharpe

Antonia Sharpe on a sector that still has large potential

Mutual funds recover

THE MUTUAL fund industry is a relative newcomer to the world of personal finance in Italy, but in its short lifetime it has established itself as an important component of the financial markets, the stock market in particular.

Before 1988, the industry was virtually non-existent in Italy, and the few mutual funds owned by Italian companies had to be quoted in Luxembourg. But a new law in that year totally changed the dimension of the industry. It spawned a proliferation of new mutual fund companies which compete with the big state and private insurance companies for the savings of Italy's army of small investors.

Italy's mutual fund industry could not have had a more favourable climate for its debut. Basking in the glow of falling inflation and interest rates, strong economic growth and rising corporate profits, Italian mutual funds saw their total net assets blossom from L1,156bn in December 1984 to L65,077bn at the end of 1986.

Treasury bills had lost some of their attraction during the mid-1980s, since yields had fallen from 18 to 11 per cent. Individuals were also enticed by the record-breaking rally on the Milan bourse, but in the euphoric atmosphere, they failed to realise that they were subscribing to mutual funds at inflated prices.

In the meantime, the market, and the investors, had lost sight of the fundamentals.

The mutual fund experience ended in tears for many first-time buyers and in the wake of the global stock market crash in 1987, many sold out and returned to the safety of bank deposits and government bonds. After net sales of just L33bn in 1987, the industry suffered heavy net redemptions of L12,956bn the following year and a further L6,656bn in 1989.

"Many individuals went away scared because they did not have the necessary experience," says Mr Aldo Messa, the managing director of Dival, the distribution arm of the insurance company Riunione Adriatica di Sicurtà (Ras), a major player in the mutual fund industry. He adds that there has been a noticeable maturity among mutual fund investors since then. "For example, during the Kuwait crisis and the failed coup in the Soviet Union, they were all on the edge of their seats but there was little disinvestment," he says.

Indeed, the mutual fund industry has made a good recovery from the haemorrhage in 1988 and 1989. At the end of 1990 it had returned to a net sales position of L849bn and by October this year net sales had risen strongly to L4,722bn. Net assets have had a slower recovery. After peaking in 1986, they fell to a low of L47,382bn at the end of 1990, but by October this year they stood at L55,656bn.

The scenario is not so rosy for equity funds, which have suffered redemptions as a result of the trading scandals on the Milan stock market over the past year. Several stockbroker bankruptcies have also harmed confidence. Whereas income funds have enjoyed net sales of L8,067bn in the first 10 months of this year, equity funds have been subjected to net redemptions of L1,489bn.

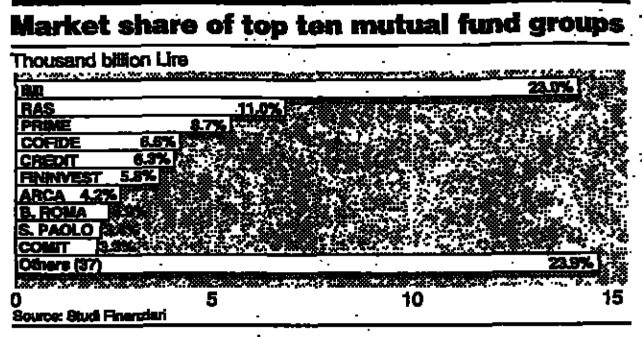
But it is not only the tarnished image of Italy's stock market nor its poor performance this year that is to blame for the underweight position of equities in mutual funds. The stock market is small and illiquid; less than half of the shares are free-float, because of large state and family holdings in industry.

At the end of October, domestic equities accounted only for 15.5 per cent of the total portfolio of all the Italian mutual funds, as opposed to treasury bills with 54.1 per cent. Foreign shares accounted for 10 per cent, as Italian fund managers looked to foreign stock markets to improve their fund's performance.

The potential for the mutual fund industry is very large, since mutual funds account for only about 3 per cent of Italian household savings. In fact, the number of mutual funds continued to grow despite the industry's problems in the late 1980s, rising from just 10 in 1984 to 72 in 1987 and to 217 by September this year.

According to the OECD, Italy has the highest savings ratio of the Group of Seven industrialised nations and the highest in the world after Portugal and Greece. The average Italian saves 15 per cent of disposable income, a decline from 26.9 per cent in 1974.

Market share of top ten mutual fund groups



Source: Studi Finanziari

The mutual fund industry is also likely to be the main beneficiary of the proposed reform of Italy's generous state-run pension system which envisages some form of voluntary pension planning. There are no Anglo-Saxon-style pension funds in Italy, instead companies pay large contributions to the state with which it pays the pensioners.

Mr Bertini says that the pension reform would help raise the quality of the Italian stock market (as well as reduce the public debt burden) because pension fund managers have a long-term investment approach and are not vulnerable to the mass redemptions which have afflicted the mutual funds. The creation of institutional investors would also facilitate the Italian government's privatisation plans, he says.

The Italian state holding group IMI has the largest share of the mutual fund market, an unexpected dividend from its rescue of a financial services network in the 1970s. IMI successfully turned the network round and it is now called Fideoram.

It is followed by Ras, which is majority-owned by Allianz of Germany, Prime, the fund management company controlled by the Fiat group, and Cofide, the holding company for Mr Carlo De Benedetti's business interests.

Ras markets its 13 mutual funds through its Dival financial services network of 900 consultants, set up 21 years ago. Its star fund is Ct-Rendita, a fixed income fund which pays out twice a year. It set up in June 1989 and now has L1,698bn of net assets, 90 per cent of which are invested in domestic government bonds. It also has a money market fund, Rendiras, which has no entry or exit costs and is aimed at customers who want to park their money temporarily before deciding on a new investment.

Ras was the first to offer Italian investors a chance to invest abroad when it launched its Adriatic Global fund in July 1988. In March this year Ras launched three new funds investing in Europe, America and south-east Asia.

The mutual fund company, Sprind Gestione, is a slightly different animal from Ras. It was set up in 1984 by a group of stockbrokers, including Mr Angelo Abbondio who is one of the best-known individuals in the mutual fund industry. In 1989 the founders sold 50 per cent of the company to Finanza e Futuro, the financial services and products distributor of the De Benedetti group, which is 100 per cent owned by Cofide.

Sprind's most popular fund is its Fondo Professionale, an equity fund which was set up in November 1984. With net assets of L1,714bn, this fund has outperformed all the other mutual funds over four years, rising by 60 per cent.

Mr Carlo Maria Mascheroni, Italian equity portfolio manager and a director of Sprind Gestione, attributes this outperformance to seeking out undervalued situations. He gives the example of Sip, the state-controlled company that operates Italy's domestic telephone services, which surprised the market in late September with a 54 per cent rise in interim operating profits. Since then, Sip has outperformed the Comit index by more than 25 per cent.

Antonia Sharpe on the reform of the securities industry

Floating the Sims

CHANGES in the law, especially those that threaten to upset the cosy existence of an influential group of individuals, always take a long time in Italy. But when the new laws enter the statute book, the authorities invariably enforce them with frightening zeal.

Little wonder, therefore, that Milan's stockbrokers and floor traders are not looking forward to the new year, when the equivalent of London's Big Bang will happen. Sadly for them, the long-awaited reform of Italy's securities industry does not conjure up pleasant thoughts of foreign banks offering vast sums of money to take over their businesses, or of "golden handcuffs" to stop experienced individuals from being poached by rival firms.

It has been nothing like that. After the Italian Senate approved the securities industry reform bill in April 1989, which gave birth to the *Società di Intermediazione Mobiliare* (Sims), a new hybrid encompassing stockbroking and fund management, Milan's *agenti di cambio*, or stockbrokers, decided to sit and wait for the cash-rich suitors to come knocking on their door.

But few appeared, first because they did not want to repeat the mistakes made in London and Paris several years earlier when brokerages fetched fancy prices and secondly, because of strong global stock market indications that the Great Bull Run of the 1980s was coming to an end. A third, equally valid reason is that from 1993, banks will be free to set up stockbroking Sims on their own, without needing an established broker.

By the start of this year when the new law formally came into operation, there were only a small number of planned Sims between stockbrokers and outsiders. By this summer, things were getting so desperate that one stockbroker even advertised, anonymously, in Italy's leading business newspaper to try to find a domestic or foreign banking partner.

The urgency to find a financial backer can be explained by the need to fulfil the capital and reporting requirements placed on the Sims, through which equity trading on behalf of third parties must be conducted from January next year. Under the old rules, stockbrokers were not required to produce audited reports and accounts. As a result, they were probably undercapitalised, which made the widely-used practice of taking positions all the more risky.

By October – the deadline for applications to Consob, the stock market regulator, for permission to set up a Sim – there were around 300 requests, of which only 59 were for the full range of activities, including stockbroking, while the majority were limited to fund management, investment advice and sales and distribution of financial products.

Mr Giuseppe Zadra, the Consob director who has been in charge of the stock market reform, says that only 87 of Italy's 220 stockbrokers have applied to transform into a Sim. (Of the total, 112 operate in Milan while the rest are sprinkled across Italy's nine other regional bourses.) This surprisingly low number is due to a change in the draft rules, which grants existing stockbrokers the right to stay in business until they retire at the age of 70.

But Mr Zadra is confident that the old-style *agenti di cambio* will die out sooner rather than later, since they will not be able to compete with the financial superiority of the Sims. Moreover, the recent spate of bankruptcies among their colleagues has severely damaged the profession's reputation with their clients and the public.

The shrinkage in trading volume on the Milan bourse and the drop in commissions before the stock market reform are not the only reasons why stockbrokers have gone bankrupt. Observers say some of these stockbrokers had been technically insolvent for several years but were found out only when Consob looked at their accounts while processing their applications to become Sims. More dead bodies are expected to float to the surface in the next few months.

Weeding out the financially unsound stockbrokers is a necessary exercise if Milan is to bury its cowboy image once and for all. Other stock market reforms are also expected to encourage back disillusioned investors, especially the foreigners who have been left out of lucrative mergers and takeovers because of the lack of minority shareholder protection rights.

Stockbrokers will be allowed to have terminals *installed in their offices*, thus eliminating the need to go to the trading floor

From next January, all trading in shares on behalf of third parties must take place on the bourse. That requirement is especially welcome, since it will make the market far more liquid and transparent. Less than half of the daily turnover is now conducted on the trading floor, it is estimated, because under the old rules banks are allowed to cross orders in-house.

Another important requirement that comes into force in January 1993 is that all stock market transactions must be settled within three days, rather than six weeks as at present. This change is designed to reduce the risk element in the stock market, caused by individual brokers who take out large "short" or "long" positions at the start of the account and who sometimes are unable to fulfil their obligations by the settlement date. This predicament has often forced brokers into liquidation.

Screen-based trading, due to start later this month in a limited number of second-line stocks, should also improve the market's transparency. Milan's evolution from the outdated and restrictive open-outcry method to continuous trading, a facility which is now available to investors in Portugal, has been held back by technical problems and by additional demands from the Consob. Around 40 leading shares or 85 per cent of the stock market capitalisation should be continuously traded by the middle of next year.

Although the two trading systems are expected to run in parallel for a while, it is widely expected that screen-based trading will be the sole survivor since stockbrokers will be allowed to have the terminals installed in their offices, thus eliminating the need to go to the trading floor. The building which houses the stock exchange has been recently renovated and some say it is destined to become a shopping mall.

In the last few months, fear of extinction has prompted a series of strikes by Italy's 800 *procuratori* or floor traders. In the past, the number of floor traders was very restricted and applicants had to sit stiff examinations. But the rules were relaxed in 1985-86 to cope with the explosion in volume during the record-breaking rise in Italian equities.

Some of the floor traders are expected to be taken on by the Sims which intend to make markets in equities but most are likely to lose their jobs. The other losers in the shake-up are back-office staff employed by stockbrokers and floor traders, since their work can easily be distributed among the employees of the banks which have decided to set up a Sim.

As in the London equity market since Big Bang, a concentration of business among the larger players is likely to occur in Milan, but at an even more dramatic pace. Of the 60 stockbroker Sims, only 15 to 20 (predominantly those backed by banks or the big industrial groups) are expected to survive, and perhaps a few of the smaller ones with expertise in niche markets.

The stringent conditions placed on the Sims will facilitate Consob's regulation of the Italian stock market. Mr Zadra says the Sims are in effect "surveillance tools" for the authorities. "I am a supporter of the Sims because they are really an instrument of control for the Consob," he says.

It appears that the Consob is taking to heart past criticism that it is ineffectual. Brokers remember only too well how slowly the Consob responded during the stock market crash in 1987 and instances when it caused confusion among traders by suspending shares during their official fixing.

Though based in Rome, the Consob plans to beef up its Milan operation to ensure a quicker reaction to developments on the stock market. In recent months it has made public the fact that it has seized the accounts of several quoted companies. In the last few weeks, it has also approved the parts of the reform which outlaw insider trading, tighten the disclosure of company news and regulate block trading.

The "OPA" law *(Offerta Pubblica di Azioni)* to protect minority shareholders' rights during mergers and takeovers, is still finding its way through Italy's parliament but ther[e] are signs that it could be approv[ed] by the middle of December, th[us] eliminating the final major obsta[cle] to investing in Italian equities.

Consob will also grant cert[ain] powers regarding the daily runn[ing] of the bourse to a *Consiglio di B[orsa]* which will be elected by the S[ims] while their fund management a[ctiv]ities and financial requirements [will] be regulated by the Bank of Ita[ly].

Haig Simonian profiles Attilio Ventura, stockbroker in the driving seat

All is not well at the Milan bourse

MR Attilio Ventura, the chairman of the stockbrokers' committee which runs the Milan bourse, does not even try to pretend all is well.

After two broker insolvencies in October and the still-unresolved issue of the L100bn of "missing" shares from Banque *Dumenil Leble (Suisse)*, which triggered a series of bankruptcies in August, Milan "is a market which certainly has problems", he admits.

However, he draws a distinction between external circumstances, such as Italy's current economic downturn and sharply declining company profits, which have indirectly depressed the market, and "internal" matters.

Foremost among these are the steep decline in turnover, which has bitten into brokers' profitability just as margins were being eroded through competitive pressures on commissions. Add to that the general slide in share values, which has seen the Milan index tread water as other markets have climbed this year, and the current difficulties come into focus. "And it's all been taking place in a period of transition for the market", with the arrival of the Sims and screen-based trading, he adds.

Mr Ventura staunchly defends the brokers, and notably the committee he chairs, from some of the harsher barbs they have faced. One of the most contentious is that the financial problems at various broking firms, including the two that went bankrupt in October, were common knowledge within at least a small circle of top brokers.

"Absolutely not. All of us are damaged if a broker goes bankrupt, so it's in our own self-interest to close them down sooner rather than later," he stresses. "I myself suffered a loss from some of these.

"As soon as we have doubts, we trv to inform the control agencies – that means Consob. But everything takes its time. Such rumours must be checked, verified and confirmed. You can't proceed on every rumour."

Despite such efforts, the Milan market is still rife with talk of financial difficulties

Even brokers who have doubts about the new system are obliged to use it

among participants, including at least one leading broker. Mr Ventura is understandably cautious when it comes to commenting on whether any other colleagues may go bust. "In a period of change, everyone has made their own choice," he says. "And we are so close to the start [of the reforms] that I believe the major problems have already been overcome. But believing doesn't mean being certain."

Some observers suggest that the recent rush of insolvencies follows a sharp increase in checks by Consob, the companies and stock market watchdog. As private firms, the brokers have not had to produce certified accounts, contributing to the view that there may still be skeletons in the cupboard. And arcane, though perfectly legal, practices like carry-over positions and repurchase arrangements have confused the public and indirectly damaged the market's image.

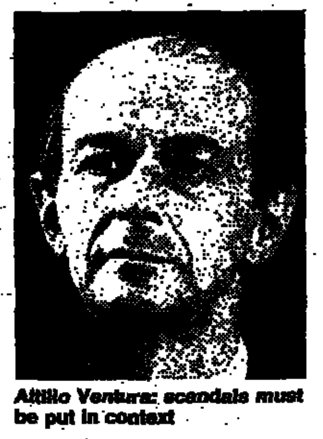
"Don't ask me if Consob is checking more toughly than before, you should ask them. I don't it is doing more inspections than before," says Mr Ventura. He stresses that the latest scandals, which have severely damaged the Milan bourse's already tarnished international reputation, must be put in context. "What about Tokyo, Salomon or BCCI?" he asks.

Rather, Milan has been blighted by a particularly unfortunate combination of circumstances at an unusually trying time. "I would wait until the first six months of next year, when the Sims are functioning, screen-based trading is under way and the new insider trading law is operating," he says. However, the greater "self-control" which the brokers are planning to bring in for themselves still sounds somewhat woolly.

Mr Ventura puts particular stress on screen-based trading, and associated changes in its wake. Despite postponements and some teething troubles, he is convinced of its importance. "I'm absolutely sure of its significance for the future of the market in terms of transparency and efficiency."

Hence his polite, but firm, rejection of criticisms of the hurried introduction of the new system by certain brokers. True, the current technology, which provides for automatic order fulfilment, does not allow a participant to know who is his counterpart in a deal. That has raised hackles among some brokers, given the current uncertainty about the financial health of some of their counterparts.

Dissatisfaction has become more vocal following the decision to launch the system with five leading blue chips, rather than the middle-ranking stocks that had been expected. The companies chosen are too important to be ignored, meaning that even brokers who



Attilio Ventura: scandals must be put in context

have doubts about the new system are obliged to use it.

Mr Ventura thinks the decision to start with blue chips was inevitable. "To launch the telematic system with small shares would have been just a show." The five stocks chosen represent over 6 per cent of total bourse turnover, and the next phase of screen-based trading will be "even more important," he says.

It is just a matter of time until the problem of counter-party risk is resolved thr[ough] the creation of a cle[aring] house and guarantee ag[ency] which will stand behin[d] deals on the system[, he] believes. But why not set [it up] immediately?

The clearing and guarantee house is part of the Sims law, which comes into force only from next month meaning an earlier start is impossible, he explains.

The new clearing/guarantee body should be running "in three or four months". And once Milan moves to cash settlement, rather than the current lag of up to six weeks, the problem of counter-party risk will be effectively eliminated.

Mr Ventura sheds few tears at the extinction of the Order of Stockbrokers, of which he is one of the most prominent members. "It's not that important for the future. Rather than calling oneself a stockbroker, the title will now be managing director or chairman of a Sim." Becoming a broker "was just a career choice. All you needed was a degree and to pass an exam. It wasn't as if you needed to have three arms," he says.

FINANCIAL TIMES

COMPANIES & MARKETS

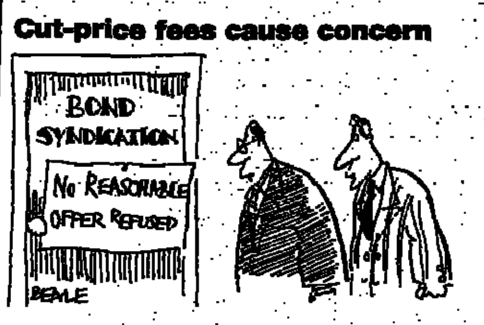
Monday December 9 1991

INSIDE

Riva wins battle for German mill

Italy's Riva steel group won a fiercely contested battle with a German consortium to buy two east German steel mills from the Treuhand agency. The successful bid marks the largest takeover by a foreign bidder of an east German industrial company. Page 18

Cut-price fees cause concern



The drive to restore profitability to new-issue underwriting in the international bond market took another turn last week as the European Investment Bank achieved the syndication of a \$500m, 10-year deal at a fraction of normal Euromarket fees. The episode worried syndicate officials at the big underwriting firms who fear other large borrowers will follow the EIB and demand cut-price new-issue services. Page 19

Demand if the price is right

At the end of a year marked by shortage of business in the syndicated loans market, there appears to be some slack in the availability of bank financing, in spite of the capital constraints facing banks. "If a deal is correctly priced, there is actually strong demand to participate," said one banker. Page 19

McDonnell trims back

THE helicopter manufacturing arm of McDonnell Douglas, the US defence group, is to cut its workforce by up to 1,000 people, or 19 per cent, because of cuts in Pentagon spending and its failure to secure a new government contract earlier this year. Page 18

Ultramar queries Lasmo claim

Ultramar, the diversified oil and gas group which faces a hostile bid from rival oil group Lasmo, has questioned the predator's ability to sell off the downstream assets at fair prices, a key part of the plan to reduce gearing if its offer succeeds. Page 16

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FT writers track the continuing repercussions in the wake of the Maxwell scandal

Emerging role of Mr Trachtenberg

By Robert Peston, Bronwen Maddox and Richard Gourlay

THE curtains of Mr Larry Trachtenberg's West Hampstead redbrick house were closed yesterday afternoon, long before sunset. Neighbours said they thought he had gone away, though there were stirrings of life behind the curtains. But, if he has sought refuge elsewhere – away from the bevy of tabloid reporters outside his front door – it is little surprise.

Life has become uncomfortable for the former London School of Economics academic since the death of his paymaster, Mr Robert Maxwell, on November 5. Last week he told Coopers & Lybrand Deloitte, the accountants employed by the banks to investigate the Maxwell family's private companies, that in June he had transferred shares from a Maxwell investment company to Mr Maxwell's personal safe.

The American investment strategist has emerged as a leading figure in the astonishing story of how Mr Maxwell withdrew over £400m from the six pension schemes of the Maxwell public and private companies.

Mr Trachtenberg was a director of a tight web of companies, controlled by Mr Maxwell, whose names were prefixed with "London & Bishopsgate" and which controlled several hundred millions of pounds in shares.

London & Bishopsgate International Investment Management was a fund management company set up in 1988 by Mr Robert Maxwell, who made himself chairman. It managed funds for third parties: 10-15 per cent, or about £60m, of the pooled Maxwell pension funds, together with the £45m funds of First Tokyo Index Trust, the Japanese investment trust it took over in March. It also advised a large insurance company on investment.

Lord Donoughue was executive vice-chairman, and Mr Trachtenberg and Mr Mark Tapley were co-managing directors – Mr Trachtenberg focusing on finance and administration, and Mr Tapley on fund management.

> Life has become uncomfortable for Larry Trachtenberg since the death of his paymaster, Robert Maxwell

Each had experience in the use of "top-down" computer models to direct investment strategy – by scanning economies and stock markets according to complex criteria they had devised a way of investing money globally without ranks of industrial analysts.

Although Mr Tapley and Lord Donoughue intially enjoyed a friendly relationship with Mr Trachtenberg, tension grew during 1990, partly because of an alleged lack of information about the administration of the office.

LBIIM was controlled by London & Bishopsgate Holdings, which traded vigorously in shares for its own account.

However, some of the shares looked after within the L&B network of companies – shares worth several hundred millions of pounds – were pledged to the pension funds of the Maxwell public companies, Mirror Group Newspapers and Maxwell Communication Corporation. This was to provide security to the funds, which had lent hundreds of millions of pounds to the Maxwell private companies.

In May, Mr Maxwell ordered the general portfolio to be liquidated. There was nothing wrong with this – so long as the proceeds went to the proper beneficiaries, mainly the pension funds.

However, at the end of June, he issued another, more curious, instruction. He told Mr Trachtenberg to transfer all the shares to his, Mr Maxwell's, personal safe. Or at least, that is what Mr Trachtenberg told Coopers executives when they interviewed him.

It appears Mr Maxwell then sold the shares and did not remit the proceeds to the pension funds – which now face potential losses of more than £300m.

Mr Maxwell was able to sell the shares and do what he liked with the proceeds because he was a director of Bishopsgate Investment Management, both trustee and manager for the pension funds and trust company for the shares. In other words, its name was on the share certificates, even though it was acting on trust for pension funds.

British MPs to investigate collapse

By Alison Smith in London

TWO powerful all-party committees of UK MPs will this week decide how to investigate the issues raised by the collapse of the Maxwell business empire.

Their decisions will come as the UK government faces growing concern from MPs on both sides of the House of Commons about the lack of co-ordination among the regulators highlighted by the collapse.

The social security committee is already inquiring into pensions, and meets tomorrow to look at their work in the light of what has happened to the Mirror group pension fund.

On Wednesday, the trade and industry committee will discuss how to handle the implications of the Maxwell affair. It may collaborate with the social security committee, but could also mount a separate inquiry.

Next week the committee takes evidence from Sir David Walker, chairman of the Securities and Investments Board, and will raise questions about the self-regulatory organisations.

Mr Kenneth Warren, chairman of the all-party trade and industry committee, yesterday said he was concerned about the Bank of England's role. "Both the banks and the Bank of England, I believe, are responsible," he said.

The social security committee hopes to take evidence soon on the Mirror group pensions fund, with witnesses likely to include the trustees. The inquiry will examine how far pensioners control their own funds and the rules on self-investment. Committee members have not ruled out an early short report on lessons from the Maxwell collapse.

Mr Peter Lilley, trade and industry secretary, has faced a call from Mr Rupert Allason, a Conservative MP, to tell MPs how much his department knew about Mr Robert Maxwell's irregular business dealings. Mr Allason said he had been in correspondence with the department of trade and industry about the Maxwell business empire since December last year.

The opposition Labour Party stepped up pressure on the government. Ms Majorie Mowlam, opposition city spokesman, called for the DTI to extend the remit of the committee, chaired by Sir Adrian Cadbury, reviewing corporate governance; and to look at disclosure and transparency, and the relationships between regulatory bodies.

John Talbot tells **Andrew Jack** about his role as administrator of the key private companies

Cautious unpicking of a tangled web

Mr John Talbot, the partner in Arthur Andersen appointed administrator to the key Maxwell private companies last week, appeared good humoured and calm but cautious yesterday as he contemplated his task over the coming months.

In his first interview since he was appointed, which he gave to the FT, Mr Talbot sketched his actions over the past few days, and his future strategy.

"We are reasonably clear about the ownership structures," he said. However, "there may be a few more" than the figure of 400 companies in the group which has been mentioned, he added.

Under the rules of administration, he has up to three months to put together a formal proposal for court approval. "It may well happen earlier," he said.

He thinks that some assets could be realised over the next 10 days. "I suspect a number of companies will go into liquidation, but it is impossible to give a timescale yet. We are also looking at taking a further tranche of companies into administration."

He believes protection given to the New York Daily News under Chapter 11 prevents its sale. However, there had been "expressions of interest" in buying the European newspaper.

He did not rule out sale of the Mirror Group, but said it was unlikely in the short term while the asset value was unclear. "People like to have a reasonable degree of certainty about what they are buying," he said.

"It is impossible to say when a deal is likely, but if someone is prepared to take the risk, it is conceivable there could be a move quite quickly."

He has extended his control since being appointed administrator to Headington Investments and Robert Maxwell Group. On Saturday he became interim manager to another 31 companies, and expects these will pass into administration by mid-week.

However, he is reluctant to place other companies into administration. An administrative order may jeopardise licences or other trading rights, and reduce a company's realisable value.

Andersen was on stand-by from the beginning of last week to act as administrator before being officially appointed on Thursday. "Most of our efforts on the first day were to safeguard the business," Mr Talbot said.

He said he wanted to protect the several thousand employees affected by the initial administration orders – a figure which does not include staff in MGN or MCC.

"I have been raising working capital, visiting locations, and protecting the companies to ensure that trading can continue," he said. "I have also been working with the directors to establish their cash needs."

"We are still very concerned about getting to grips with the full details of the operations," he said. Up to 20 Andersen partners have been drawn into the administration, supported by at least another 80 staff. They are working with local Andersen offices worldwide where there are Maxwell interests, including Hungary, Germany, Israel, the US and Australasia.

He has set up two groups: one to conduct investigations and another to run the companies day-to-day. He said work to recover money owed to the companies in administration could take many months.

Administration initially covered holding companies, but a growing number of trading companies are involved such as British International Helicopters, which operates scheduled services from Penzance to the Scilly Isles.

Mr Talbot spent much of the middle of last week with Mr Kevin Maxwell, while one of his partners has spent time with Mr Ian Maxwell. "Kevin gave me a lot of information about the group," he said.

Photo: Tony Andrews

John Talbot: getting to grips with ownership structures

Contortions over EC federalism

Economics Notebook

By Peter Norman

What's in a word? A lot, it seems, if the word is "federal" and it is uttered in the UK.

The contortions of Mr John Major, the prime minister, ahead of this week's Maastricht summit have been largely geared towards removing the dreaded "f-word" from the proposed EC treaty changes on economic, monetary and political union because it would mean the loss of Britain's national identity to a European superstate.

But a brief recent visit to Germany, that most federal of EC states, gives a very different impression. Federalism there is thriving because it represents a fragmentation rather than a centralisation of authority. It is a trend that could have both negative and positive effects on the economy.

One potentially damaging case is the decision of the federal states, or Länder, to reject a government bill to reorganise the structure of the Bundesbank.

Ten days ago, the Bundesrat, the upper house of the German parliament which represents the states, rejected a plan to reduce the number of state central banks to nine from 11, in favour of Länder proposals to have a bank for each of the country's 16 states.

If the Länder have their way, the Bundesbank could be saddled with a decision-making central council of up to 26 people. That would consist of 16 state central bank heads – the so-called backwoodsmen who travel to Frankfurt once a fortnight for the central bank council meetings and who occasionally have proven to be somewhat erratic in their view – and up to 10 career central bankers in the Frankfurt-based directorate.

The news landed in the Bundesbank's Frankfurt headquarters like a bombshell. But Bundesbank officials now hope that at least one of the federal states will rethink its position, so that the government bill will eventually become law through the power of its majority in the Bundestag or lower house of parliament.

Another possibility would be a parliamentary stalemate in which both the government and state proposals were lost. This would leave the Bundesbank structure as it is, for the time being at least.

Both options would be more palatable than a greatly expanded decision-making body in the bank. But in the meantime, Europe's most powerful central bank faces a period of enhanced uncertainty when the EC's central banks will be jockeying to assert their influence in the proposed European system of central banks.

Germany's stock exchange system provides further examples of local ambition standing in the way of what appears to be good economic sense.

For years Germany's eight stock exchanges have been discussing how better to integrate their operations to be more competitive in the present era of global capital movements.

One possible route has been through technology such as the Ibis electronic trading system developed by Germany's biggest bourse in Frankfurt. This system claims a market share of up to 25 per cent in Germany's most-traded shares and has contributed to a fall in dealing costs for investors.

However, the authorities in Frankfurt have been unable to secure its extension to the other seven stock markets as the sole basis for electronic trading. Indeed, Bremen, Germany's smallest stock market, has proposed another electronic system, Quotron, owned by Citicorp.

On the other hand, Germany's federal structure is seen as a way of preserving the economic strength of regions in an uncertain world. The Frankfurt city authorities, for example, are confident that Frankfurt will remain Germany's premier financial centre in spite of the decision to move the nation's capital to Berlin.

Mrs Gabriele Eick, chief executive of Frankfurt's business and economic development corporation, says it is typically British – and wrong – to expect Germany's financial services sector to shift to the new capital.

While Frankfurt benefits from its central position and good communications, Germany's federal structure and tradition are also seen as important supports for its future prosperity, just as they are for the continued welfare of centres as diverse as Düsseldorf, Hamburg, Munich and Stuttgart.

Inevitably, there is an element of special pleading in such claims. But post-war Germany's specifically decentralised concept of federalism may have contributed to a spread of prosperity. For the record, disposable income per head in Scotland is still only 84 per cent of that in the south east of England after nearly 300 years in a monetary union and centralised state.

Dawdling Debate

It was nearly the case of the dog that didn't bark. But last week, Germany's popular press finally caught up with the idea that the Maastricht summit will almost certainly lead to the demise of the D-Mark.

The absence of a serious debate about Emu among serious German economists has been almost as surprising as its scant coverage in the press.

An exception has been Mr Hermann Remsperger, chief economist at BHF Bank, the Frankfurt-based merchant bank. A recent issue of his regular newsletter questioned whether the European Community truly constituted an optimal currency area.

He pointed out that the absence of sufficient labour market mobility and wage and price flexibility meant that an early move to Emu would pose considerable risks. In particular, a premature union would involve large-scale fiscal transfers between regions.

What was surprising was not so much that Mr Remsperger should publish these views, but that they should cause a stir at this late stage. However, he says this has been the case among readers of his newsletter, even though, as customers of a bank that has specialised in serving businesses and high net worth individuals, they might be expected to be better informed on economic developments.

Germany's belated awakening to the implications of Emu is all the more peculiar, when one recalls that proposals to link the D-Mark to other European currencies in the EMS caused controversy at the end of the 1970s.

One can only speculate on the reasons for the lack of recent interest in Emu. The nation has understandably been fully absorbed with reunification and its problems.

Mr Remsperger believes things are changing. German MPs, he says, will face difficult times explaining why the D-Mark should disappear when they return to their constituencies after Maastricht.

Vickers in talks on sale of Rolls-Royce

By Michiyo Nakamoto in London

ROLLS-ROYCE Motors, one of the few symbols of quality manufacturing in the UK still in British ownership, could be sold to a foreign group depending on the outcome of talks between Vickers, its parent, and interested parties.

The engineering group reported a £4.3m (\$7.6m) loss in interim pre-tax profits this year largely due to a slump in sales of its Rolls-Royce and Bentley luxury cars. It said it was looking at ways to obtain the best value for shareholders, including an outright sale.

"We're looking at all sorts of things, nothing is ruled out," said Mr Terrence Collis, Vickers's director of public affairs.

BMW, the German vehicle manufacturer, is among the groups interested in buying Rolls-Royce and talking to Vickers.

Mr Jacques Calvet, chairman of Peugeot, told French television that the French car maker was not interested in buying Rolls-Royce.

Vickers declined to confirm whether it was involved in talks with UK groups. It said discussions with possible buyers were "at the very early stages".

Vickers said it had always made clear it would sell Rolls-Royce at the right price. This price could only be determined by weighing offers against the expected long-term value of the company to Vickers. It sees Rolls-Royce as profitable in the long term.

City of London estimates of Rolls-Royce's value vary from £250m to £600m.

The company has, however, seen sales of its cars fall sharply in its main markets of the US and UK.

COMPANIES AND FINANCE

Disagreement over the sale of downstream assets at fair prices

Ultramar questions Lasmo's claim

By Michiyo Nakamoto

ULTRAMAR, the diversified oil and gas group which faces a hostile bid from rival oil group Lasmo, questioned the predator's ability to sell off the downstream assets at fair prices, which is a key part of the plan to reduce gearing if its offer succeeds.

In a circular to shareholders over the weekend Ultramar said the bidder's gearing would be significantly higher than it claimed if its final offer was to be fully accepted.

Lasmo has said that it received up to ten inquiries about Ultramar's North American refineries from interested parties, indicating prices "not 100 miles from what we thought fair and reasonable."

Ultramar claimed, however, that this was unlikely given the persistent difficult market for downstream operations.

In the last two years five refineries that were up for sale were withdrawn from the market after they were unable to attract favourable prices.

Three large North American refineries currently on the market have not found buyers yet, while a further four refineries have been taken off the market.

Overcapacity in the downstream market, extremely thin margins and, specifically in California, stringent new environmental regulations meant many companies cannot afford to stay in the market, Ultramar said.

It also claimed that Lasmo's gearing would be significantly higher at 76 per cent, rather than the 65 per cent it has indicated, partly because of an increase in borrowings in the past few months.

Lasmo has not yet made a profits or dividend forecast, or a valuation of its assets. Acceptances of its revised offer, that includes a 40p per share cash sweetener with the initial one-for-one all share bid, were still at less than 1 per cent. Its shares have fallen to 253p, valuing Ultramar at 293p compared with a closing price of 272p on Friday.

Banks revise agreement with Ferranti

FERRANTI, the troubled electronics group, has signed a revised long term credit agreement with its bankers to provide banking facilities until September 1993.

Ferranti opened talks with its bankers in August after it defaulted on several of the technicalities of last year's banking deal, which helped to save it from collapse following an alleged £215m fraud.

The revised agreement was announced to shareholders at the extraordinary general meeting, which was called to approve the £38m sale of the missile business to the General Electric Company in settlement of its claim that it last year paid £33m too much for Ferranti's defence system's subsidiary.

The revised banking agreement is dependent upon the sale of the missiles business being completed by next April.

Fund managers lifting bonds and favouring UK equities

By Scheherazade Daneshkhu

UK FUND managers intend to increase their holdings of bonds but are also targetting UK equities as enthusiasm for Japanese equities slips, according to the latest survey by Gallup for Smith New Court, the securities house.

The survey of 98 institutions with £519bn under management which was carried out last week, also revealed fears that UK interest rates will rise during the next three months because of sterling's weakness in the ERM.

The December survey confirmed the trend towards increased holdings in bonds. A balance of 20 per cent of the interviewees are planning to raise their holdings compared with 10 per cent of interviewees in the November survey.

There has been a continued swing in favour of UK gilts. The balance planning an increase has moved from minus 14 per cent in October to plus 7 per cent in November and plus 13 per cent in December.

A similar upward shift was found for overseas bonds, from plus 13 per cent to plus 20 per cent over the same period.

Fund managers remain confident about longer-term prospects for equities but are less bullish about the short-term.

They are optimistic about UK equity markets. The balance expecting to increase their holdings has moved from 22 per cent to 29 per cent, the highest level since March.

European equities also fared well, with the balance expecting to increase their holdings picking up from 19 per cent to 22 per cent.

By contrast, the trend towards increased Japanese holdings – while high – has slipped from 46 per cent to 35 per cent and fund managers remain very bearish about the US market. Those intending to decrease holdings of US equities has gone up from 16 per cent to 22 per cent.

The fund managers expect an increase of 4.1 per cent in the retail price index in the year to end-1992, while anticipating growth in average earnings of 5.6 per cent over the next 12 months.

Tubular Edgington £7m in loss

By Peggy Hollinger

TUBULAR Edgington, the hospitality tent and crowd barrier group, plunged into a £7m pre-tax loss for the year to July 31.

The company, which completed a refinancing and brought in new management last spring, also announced it was in negotiations for further financing to carry out a restructuring.

Mr David Gordon, the new chairman, said "provided the additional funds ... were forthcoming, ... the prospects for recovery and a return to profitability were good".

The loss compared with a profit of £549,000 last time.

Turnover fell less sharply, from £12.2m to £11.3m.

Mr Gordon said most of the loss arose from decreased turnover and a higher proportion of lower margin business. Trading profits declined by two-thirds to £2.2m.

Job cuts, and write-offs on hiring stock cost the company £2.8m in exceptional charges.

An extraordinary charge of £1.7m reflected further reorganisation costs and the development costs of a plastic seat project.

Losses per share were 3.14p, compared with earnings of 0.41p. There was no dividend.

Mr Gordon said the group planned to change its name to Black & Edgington, the same as its core business.

Uncertainty at B&I ends as bid from Irish Continental accepted

By Tim Coone, in Dublin

THE STATE-run Irish shipping line, B&I, is to be sold to the Irish Continental Group for I£8.5m, or £7.9m.

This ends months of uncertainty over the fate of the loss-making ferry operator.

The decision was announced by the Transport Minister Mr Seamus Brennan, after a management buy-out offer had to be restructured when its Danish backers pulled out.

The management buy-out proposal had trade union support, but was I£3m less than Irish Continental's offer.

The government had agreed in principle to sell the line to ICG in February, but the protracted negotiations then led to the rival MBO offer.

B&I operates two passenger and car ferries between Ireland and the UK, and two container ships on services between Dublin, Liverpool and Antwerp. One of the containers was sunk at the entrance to Dublin port last month, in a collision with the other, which is chartered by B&I.

ICG operates two passenger and car ferries between Ireland and France. Its purchase of B&I was expected to create economies of scale, and to allow for a shedding of around 250 of B&I's 950-strong workforce.

Under the terms of sale, the government is to write-off I£36m in debts owed by B&I, and ICG is to invest a further I£30m in the company over the next five years.

This will be used to overhaul or replace B&I's existing fleet and to finance the rationalisation programme.

An ICG spokesman said the purchase will be funded out of cash reserves, while the additional investment will most likely come out of operating profits and borrowings.

He said there are no plans to change any of the routes currently operated by ICG or B&I.

B&I was rescued in a government take-over in 1965, received an equity injection in the early 1970s, and has depended on financial capital support from the government since 1976. In total the government has spent I£106m on the line to date.

Earlier this year, a consultancy report commissioned by the government stated that B&I would require over I£40m in Exchequer support over the next four years and a further I£75m in capital investment. That prompted the government to take the decision to sell.

Pacer warns of year-end loss

Shares in Pacer Systems tumbled 15p to 51p on Friday as the USM-quoted electronics and aerospace company warned it would report a loss for 1991, because of the costs of a signal processing project for the US Navy, writes Peggy Hollinger.

The group, which pulled itself out of the red in 1989, said "unexpected technical difficulties" had been encountered during the final stages. It is developing an underwater simulator for testing anti-submarine equipment.

The product is expected to be delivered in early 1992 and Mr Jack Rennie, chairman, said Pacer should return to profitability next year.

Mr Rennie had said in August that he expected profits in the second half to be "a little worse" than the first. At that time, delays on the project had already affected profits.

He said on Friday that the group's core system services business remained profitable and the group would be cash positive at the year-end.

Pacer reported a profit of $645,000 (£364,406) for the six months to June 30.

New London in the black with $2.27m

NEW LONDON, the oil and gas exploration company which operates in the US, reported pre-tax profits of $2.27m, or £1.25m, for the six months to end-September.

The result was generated from revenues of $38.7m, and compared with a loss of $54,000 from $20.9m.

Cash flow from operations was $4.6m, more than one-and-a-half times higher than last time.

Mr Paul Kesterton, chairman, said the increase in revenues reflected the inclusion of International Drilling Fluids, acquired in July.

For that reason, and because of the dissimilarity in oil and gas prices in the periods, comparisons with last year were invidious.

Week that gave everyone something

THERE was something for everyone in last week's international mergers and acquisitions. We saw examples of non-core disposals, strategic expansion, restructuring and the prospect of fairer treatment for minorities, writes Brian Bollen.

ICI continued its restructuring with the sale of its UK-based lime business to Minorco. The disposal, ICI's biggest this year, is part of its defence against a possible Hanson bid.

The business no longer fitted its stated policy of developing subsidiaries with global potential.

On the other side of the coin, the acquisition is part of Minorco's strategy of building a pan-European aggregates and industrial minerals business. Minorco's purchase of German hardstone producer Lausitzer Grauwacke from the Treuhandanstalt also forms part of that strategy.

The week provided evidence of a possible improvement in the outlook for minority shareholders in continental Europe.

The decision by Italy's Agnelli family to enlarge its offer for French holding company Exor to include all its shares came just a day after a Belgian court ordered French hotel group Accor to raise the value of its full bid for Wagons-Lits to give minority shareholders equal treatment.

Helping to position itself for 1992 and the single European market, private Dutch insurer NCM doubled its size with the controversial acquisition of the short-term credit insurance arm of the UK's ECGD.

Still in Holland, US bank JP Morgan advised Royal Nedlloyd Group in the formation of a joint venture with Bulkitalia of Genoa, a major part of Nedlloyd Group's restructuring of its bulk activities.

Metal powders manufacturer Wolstenholme Rink is to buy Netherlands-based Douw Beheer as part of its strategy of broadening the range of products it can supply to printing ink manufacturers.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
NCM (Holland)	Unit of ECGD (UK)	Export credit insurance	£70m	Ends controversial privatisation
Kabi Pharmacia (Sweden)	Pierrel (Italy)	Pharmaceuticals	£47m	Strategic long-term investment
Allied Colliods (UK)	Hydrolabs (US)	Textiles chemicals	£11.7m	Conditional on environmental investigation
Oriflame International (Belgium)	Aco (Sweden)	Cosmetics	£11.5m	Kabi Pharmacia selling
Minorco (Luxembourg)	Lausitzer Grauwacke (Germany)	Construction materials	£11m	M's 2nd Treuhand buy
Gestetner (UK)	Savin Canada (Canada)	Office machinery	£8.6m	Needs Canadian govt OK
Wolstenholme Rink (UK)	Douw Beheer (Holland)	Speciality chemicals	£7.2m	Profit related price
Royal Nedlloyd (Holland) /Bulkitalia (Italy)	JV	Bulk Shipping	n/a	Nedlloyd restructures bulk ops
Securiplex Europe (Canada/Belgium)	BETEA/Incendie (Belgium)	Fire detection products	n/a	SNC chases market share
Minorco (Luxembourg)	Unit of ICI (UK)	Construction materials	£120m	Another anti-bid disposal

Source: FT Mergers + Acquisitions International

GrandMet purchase

Grand Metropolitan is expanding its European cake manufacturing activities through the purchase of Bistrial, which has production sites in France, Belgium and Italy.

Vendor was Midial, the French food manufacturer and retailer.

The consideration is not material to GrandMet shareholders' funds.

Current year turnover for Bistrial is estimated at £50m.

New England advises rejection

NEW ENGLAND Properties, backed by its financial advisers NM Rothschild, tells shareholders to reject the 17p per share offer from TR Property Investment Trust.

"It represents an arrogant attempt to buy the company on the cheap", said Mr Roy Treacher, chairman, and "I am sure shareholders will turn it down".

In its defence the company said a professional valuation as at December 2 put the property portfolio at £28.6m and the net asset value per share at 23.9p, which was some 41 per cent above the offer from TR Property.

The valuation took into account the forecast of net profits of £1.38m for the year 1991.

The company also pointed to the expansion in its net assets per share since 1986, the growth potential inherent in its strategy, and TR Property's "poor record" in terms of net asset and share price performance.

Leslie Wise and Helene talks off

Discussions on a possible merger between Leslie Wise Group, the textiles, women's wear and knitted fabrics group, and Helene, the women's and children's wear company, have been terminated, the boards announced.

The Leslie Wise board saw commercial benefits in the proposed merger and will now continue to consider other opportunities to develop its business, it said.

Unilever sale

Unilever has agreed to sell Sequoia-Turner, its US medical products business, to Abbott Laboratories.












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Riva wins German steel mills battle

By Leslie Colitt in Berlin

ITALY'S Riva steel group has won a fiercely-contested battle with a German consortium to buy two east German steel mills from the Treuhand agency.

The bidding recently assumed a political dimension when Chancellor Helmut Kohl gave strong tacit support to the Italian company by assuring equal consideration for foreigners seeking to invest in eastern Germany.

Riva's successful bid for the Hennigsdorf and Brandenburg steelworks marked the largest takeover by a foreign bidder of an east German industrial company.

The Treuhand agency's management board chose the Italian steelmaker at the weekend over a rival consortium led by Thyssen Stahl, Germany's largest steel producer.

Riva, which has steel plants in Italy, Spain, France and Belgium, agreed to invest DM200m ($124.2m) in the east German plants whose output of steel for the building industry is expected to compete head-on with that of other German producers.

Manfred Stolpe: deal assures survival of steel production

The Italian company also pledged to retain 2,400 out of 10,000 workers for a two-year period after which 1,900 employees are to be kept.

An official of the Treuhand said Riva had agreed to pay about DM100m for both mills.

In a concession to the militant metalworker's union, IG Metall, the redundant steel workers are to be employed for two years in publicly-financed retraining and job-creation programmes.

The concession was won from the state of Brandenburg after a remarkable two week-long "occupation strike" by the 5,000 steel workers at Hennigsdorf.

Mr Manfred Stolpe, the prime minister of Brandenburg, said the deal assured the survival of steel production in the state and guaranteed that no one would "land on the street".

There would be no problem attracting new investors to those parts of the Hennigsdorf and Brandenburg company sites which were no longer needed for steel production.

Mr Hans Krämer, board member of the Treuhand responsible for the steel industry, said the sale of the two steel plants was facilitated by their location just outside Berlin. It would be a great deal more difficult to retain jobs at EKO, east Germany's largest steel producer, which the Treuhand is also offering for sale.

Krupp, Thyssen, Salzgitter and Hoogovens have shown strong interest in EKO, along with Elva, a state-owned Italian steel producer. Both Krupp and Elva said they were prepared to erect a hot-rolling mill at Eisenhüttenstadt, the site of the EKO plant on the Oder river.

Spending cuts hit McDonnell Douglas

By Martin Dickson

THE helicopter manufacturing arm of McDonnell Douglas, the US defence group, is to cut its workforce by up to 1,000 people, or 19 per cent, because of cuts in Pentagon spending and the company's failure to secure a new government contract earlier this year.

The subsidiary, based in Mesa, Arizona, also said in a statement that it would consider selling some operations.

It would also explore the options for joint ventures and consolidate various internal divisions.

The company makes the Apache helicopter, which was a key ingredient of the US military operation in the Gulf war.

However, it faces declining Apache orders, and last April lost out to a Boeing/Sikorsky Aircraft team for a contract to build the army's next generation light helicopter (LH).

Large numbers of the staff now facing the axe have been involved in developing an advanced version of the Apache, called the Longbow, but this work is nearly complete and Congress has yet to decide its policy towards the aircraft.

Had McDonnell won the light helicopter contract, some of these workers might have been redeployed to it.

Faced with declining military orders, the subsidiary has also been developing a new commercial helicopter, the MDX.

Bankruptcy court auctions lucrative Pan Am routes

By Martin Dickson in New York and Victoria Griffiths in Sao Paulo

THE last substantial assets of Pan American World Airways – its lucrative routes to Latin America and the Caribbean – are due to be auctioned in New York this morning in an unusual bankruptcy court hearing.

The carrier ceased operations last week after Delta Air Lines, one of the three largest US carriers, withdrew from a complex rescue plan for Pan Am. The scheme had been designed to bring it out of Chapter 11 bankruptcy proceedings as a smaller operator serving Latin America, but collapsed when Delta refused to advance any more loans.

The two other leading US airlines – United and American – have expressed interest in acquiring the Pan Am routes.

United, which does not have routes in Latin America, tried to acquire Pan Am's earlier this year. American already has an extensive Latin American network.

The US Transport Department has granted both airlines the right to add temporary flights to Latin American destinations to help stranded Pan Am passengers, but American has expressed reluctance to do so unless it is awarded the routes permanently.

Meanwhile lawyers representing Pan Am's unsecured creditors have filed a suit against Delta seeking $2.5bn for breach of contract.

The suit accuses Delta of failing to abide by the terms of the rescue package, causing Pan Am to "cease operations, terminate their workforce and proceed to liquidate their property".

The speedy filing of the suit is designed to prevent Delta using the $115m that Pan Am owes it to bid for the airline's assets at today's auction. All bids at the auction must be in cash, and will be subject to ratification by the Transport Department.

● Pan Am's Brazilian assets have been frozen by a Rio de Janeiro judge to protect passengers, employees and other creditors awaiting payment from the group.

The ruling was made as a result of a law suit against the group for reimbursement on a ticket awarded for logging frequent flyer miles.

It is uncertain how much Pan Am holds in assets in Brazil. All of its aircraft, however, have already returned to the US.

Hundreds of passengers were left stranded in Brazil after Pan Am suspended flights this week but Varig, the Brazilian airline, temporarily offered them places on its waiting list.

The group announced it would make seven extra flights this month to accommodate the passengers.

Canadian bank chief to retire

MR Donald Fullerton, chairman and chief executive of Canadian Imperial Bank of Commerce, Canada's second biggest financial institution, will retire in mid-1992, writes Bernard Simon in Toronto.

CIBC said that Mr Fullerton, who is 60 and has headed the bank since 1985, had decided to retire "in line with normal succession planning".

A successor will be announced next year. The current favourite is Mr Al Flood, head of CIBC's corporate banking division.

Premier lifts profit to R227m

By Philip Gawith in Johannesburg

PREMIER Group, the South African food, pharmaceuticals and entertainment group, overcame difficult trading conditions to report increased earnings in the seven months to the end of October.

Trading profit rose to R227m ($81.3m) from R158.4m. Attributable earnings rose to R84.8m from R60.3m and restated for a six-month period were up 15 per cent at R72.7m, or 97 cents per share.

Turnover from continuing operations rose by 13 per cent, but following large acquisitions the overall figure more than doubled to R5.2bn from R2.5bn. During the period, Premier took a controlling interest in Metro Cash and Carry which merged with Score Food Holdings.

The deal – under which Premier ended up with a 50 per cent stake in the enlarged Metro group – increases Premier's distribution network. Mr Peter Wrighton, chairman, said the acquisitions had performed well.

He warned, however, that business conditions were more difficult than they had been for many years, although he foresaw satisfactory growth.

The food and pharmaceutical interests performed well but CNA Gallo, the entertainment arm, was hampered by the difficult environment.

The ordinary dividend was raised to 32 cents per share, against 28 cents, and there was an adjustment dividend of 5 cents to cover the change in the year end.

Brazil's privatisation list grows

By Victoria Griffiths

THE National Development Bank (BNDES) of Brazil has added four companies to the country's privatisation list – three steel groups, Acominas, Cosipa and CSN, and the shipping group Lloyds Brasileiro.

The bank said it would auction the groups at the end of 1992 and the beginning of 1993. The sell-offs may not be easy, however, as most of the groups face financial difficulties.

CSN, for instance, is weighed down by a $2bn debt, $400m with private foreign banks, and another $150m with international organisations.

Mr Robert Procopio Lima Neto, group president, said the debts would be cleared by next November, when he expects the sell-off to take place.

Cosipa also faces heavy debts and poor performance. According to Mr Antonio dal Fabro, the group's president, it may make an operating profit in 1992 for the first time in several years.

Lloyds Brasileiro also has financial difficulties. After it failed to pay its suppliers last year, its ships were seized.

The federal government had considered closing the company down, but opted for privatisation.

Acominas is the most healthy of the four and, according to steel analysts, boasts relatively modern machinery for specialised steel production.

Mr Eduardo Modiano, the president of BNDES, said the government was also considering the privatisation of the federal railroad.

Provigo back in the black despite pressure

By Robert Gibbens in Montreal

PROVIGO, Canada's second biggest food distributor, suffered slow sales growth and heavy pressure on margins in the first nine months of 1991.

Sales were C$5.17bn (US$4.57bn), up 4 per cent from C$5bn a year earlier, and net profit was C$43.1m, or 50 cents a share, against a loss of C$14.4m, or 17 cents, a year earlier.

Third-quarter sales were little changed at C$1.5bn, and net profit was C$9.4m, or 11 cents, against a loss of C$43.4m, or 51 cents, a year earlier after special charges.

The company said expansion continues in the US, but, with the recession, conditions there were as tough as in Canada.

● Dylex, a Canadian and US speciality retail group, continues to show losses because of the long recession.

The company is shutting down a women's clothing subsidiary and will liquidate its inventory of about C$50m.

In the three months ended November 2, Dylex reported a C$7.1m loss, against a loss of C$5m a year earlier, on revenues of C$474m, compared with C$454m.

For the first nine months, its loss deepened to C$44.7m from C$9.1m on revenues of C$1.29bn, against C$1.23bn.

● Algoma Steel, a casualty of the long North American recession, will miss a mid-December deadline for restructuring its C$800m debt and has set January 31 as the new deadline.

Magna rises to C$25m

MAGNA International, Canada's biggest independent car parts maker, lifted first-quarter net profits to C$25m (US$22.10m) or 79 cents a share from C$2.8m or 10 cents a year earlier. Sales rose 24 per cent to C$617m, writes Robert Gibbens.

The group's first-quarter, which reflects the turnround from the financial crisis two years ago, was better than most analysts had expected.

For the year ended July 31 1991, Magna posted profit of C$16.5m on sales of C$2bn. It has just raised C$100m in new equity to reduce nearly C$700m of debt.

The group makes parts for north American car assemblers, particularly Chrysler, and operates three metal stamping plants in Europe.

It said north American vehicle production was strong in the three months ended October 31, but would be lower in the group's second quarter because of seasonal factors and the recession. However, profits would still be higher than a year earlier.

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Strong demand if the price is right

AT THE end of a year marked by shortage of business in the syndicated loans market, there appears to be some slack in the availability of bank financing, despite the capital constraints that banks are facing. A number of deals completed last week were oversubscribed.

"If a deal is correctly priced, there is actually strong demand to participate," said one banker.

The volume of business generated in 1992 could be set to increase, since the number of refinancings is expected to grow. Many syndicated loans have a life of five years, and a reasonable flow of deals originated in 1987 – an active year for bank financing – is scheduled to mature. In addition, if the UK stock market remains in poor condition, any takeovers are more likely to be financed in the loans market.

The pace of activity slowed in the loans market last week, as the end of the year approaches. However, details of the Bull transaction emerged. The $700m loan to refinance the French state-owned computer company Groupe Bull is now in syndication. The deal will pay a margin of 30 basis points over the London interbank offered rate (Libor), with a facility fee of 40 basis points and a 5 basis point utilisation fee if more than 50 per cent is drawn. The loan has a three-year life.

The deal, arranged by National Westminster, J. P. Morgan, BNP and Société Générale, will refinance some of the troubled group's debts.

Meanwhile, BTR's £1bn loan for the purchase of Hawker Siddeley has been oversubscribed by 50 per cent, and allocations to the 46 syndicate members will have to be cut back.

A $300m loan for Petroleos de Portugal – Petrogal – launched on November 20 is already 50 per cent oversubscribed. The oil company is 100 per cent state-owned, but 51 per cent of it is due to be sold. The three-year deal, which replaces an old facility, pays a margin of 40 basis points above Libor.

Two smaller deals, a Northern Foods' £60m loan over 18 months, arranged by Barclays Syndications, and a L75bn loan for Isveimer, completed last week, were also oversubscribed.

Elsewhere, London and Edinburgh Insurance group has launched a £50m five-year deal. Details have not yet been released. Several transactions for European companies are in the works for next year.

Elf Enterprise is believed to be close to appointing banks to arrange a project financing with a maturity of up to 10 years. The loan, denominated in sterling, is expected to be fairly large. Barclays, Citicorp and Banque Nationale de Paris are tipped to be among the initial underwriting group of four to five banks, but it is understood that no official mandate has yet been awarded.

● Thames Power's financing of Barking power station was signed on Thursday, but syndication of the transaction will not be completed until next year. The £676m credit facilities will fully finance the construction of the London gas-fired power station. Thames Power is a joint venture between BICC, the cables and construction group, and Canadian Utilities.

Construction is to start in July 1992, and commercial operations in 1995.

● Cydsa, the Mexican petrochemicals company, has issued $50m of notes under its newly-arranged $100m Euro-commercial paper programme. The notes mature on March 3 1993, and yield 8.25 per cent. The programme, which allows for issuance of notes maturing in seven to 365 days, was arranged by Citicorp.

Tracy Corrigan

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,314.2	0.0	197.4	13,317.9
Prev	329.7	0.0	84.6	15,614.5
Other	3,766.8	36.7	1,103.8	8,155.4
Prev	2,978.7	0.0	83.0	6,097.0
Secondary Market				
US$	32,247.1	798.0	9,028.3	12,086.3
Prev	23,869.2	917.5	7,151.6	7,719.4
Other	54,994.2	711.0	6,606.5	99,901.2
Prev	45,169.3	799.8	3,729.3	88,689.2

	Cedel	Euroclear	Total
US$	29,272.3	40,716.9	69,989.2
Prev	19,582.6	36,103.9	55,686.5
Other	63,355.3	111,920.3	175,275.6
Prev	50,408.0	97,138.3	147,546.3

Week to December 5 1991 Source: AIBD

INTERNATIONAL BONDS

Knock-down fees for new issues set off alarm bells

THE DRIVE to restore profitability to new-issue underwriting in the international bond market took another turn last week as the European Investment Bank (EIB) achieved the successful syndication of a $500m, 10-year deal at a fraction of normal Euromarket fees.

The episode caused concern among syndicate officials at the big underwriting firms. They fear that other large borrowers will follow the example of the EIB and demand cut-price new-issue services.

The establishment of broadly accepted norms for new issue fees has been a significant factor in restoring profitability to the market this year.

Seven firms in particular have been vocal in support of standard fee structures: Credit Suisse First Boston, Deutsche Bank Capital Markets, J. P. Morgan Securities, Nomura International, Paribas Capital Markets, Morgan Stanley International and UBS Phillips & Drew.

The firms' effort to hold the line on fees has not been without controversy.

The Office of Fair Trading, the UK competition watchdog, wrote to the seven in June, asking them to explain how the "standard" level of fees was determined. It concluded that it had no grounds for a full restrictive trade practices inquiry.

If there were any residual fears of a cartel on fees, they should have been dispelled last week. None of the seven firms participated in the underwriting, yet the deal was distributed to investors without a hitch.

For a 10-year Eurodollar issue, full fees of 32.5 basis points are now accepted as standard by most borrowers. This fee splits into 20 basis points for management and underwriting and 12.5 basis points as a selling concession.

ABN Amro won the EIB mandate last week by agreeing to work for full fees of just 12.5 basis points. There was no formal selling group, but syndicate managers willing to place an allocation of bonds received a concession of 10 basis points.

This implies that the underwriting banks were prepared to take on the underwriting risk for around 2.5 basis points – just one-eighth of the usual fee.

The EIB maintains that, as a public body, it has a duty to achieve the lowest possible cost of funds available. The total cost saving to the EIB last week was around $1m.

The EIB is in the rare position of having unquestioned triple-A credit quality.

It also has unusual leverage because it is the largest borrower in the market, often referred to as a "commodity" borrower. Firms are often willing to participate in even the most tightly-priced EIB bond issues in the interests of maintaining a relationship with the bank.

This stock of goodwill was depleted last week. "The EIB is short-changing the market," commented the syndicate manager at one top firm. The sentiment was echoed elsewhere.

However, participants in the deal argued that:

● It was not the first EIB mandate to be won on the basis of discounted fees, and was no different in kind to these earlier transactions.

In the Eurodollar sector alone, Warburg, Swiss Bank Corporation and Goldman Sachs have each won deals by working for discounted fees. These earlier issues were handled as "block trades" by just one or two underwriting firms and the fees were not disclosed to the market.

Last week's deal was underwritten by the lead manager and a group of five banks; Banca Commerciale Italiana, Banca Nazionale del Lavoro, Crédit Lyonnais, Kidder Peabody and Swiss Bank Corporation. Other firms were free to join the underwriting group – hence the exact level of fees was widely known in the market.

● Reducing fees is not the only way to offer a borrower a competitive cost of funds. The EIB rarely swaps the proceeds of its bond issues into another currency, but there is little doubt that other borrowers are sometimes offered "subsidised" swaps by firms anxious to win a new issue mandate.

Are these false economies? Underwriting fees paid to big firms cover not only underwriting risk but also the potential cost of providing liquidity and support to an issue if market conditions are bad. Without the support of the biggest firms, a new issue could flop or become less liquid – possibly resulting in a higher cost of funds to the borrower in future.

The question is whether last week's issue will make this equation look different to borrowers other than the EIB.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Sanwa Shutter Corp.(a)♦†	280	1995	4	$3\frac{5}{8}$	100	Daiwa Europe	3.625
Misawa Homes Co.(c)♦†	140	1995	4	$3\frac{5}{8}$	100	Nomura Int.	3.625
Tamura Corp♦	70	1995	4	$3\frac{7}{8}$	100	Daiwa Europe	3.375
Alpine Electronics♦	55	1995	4	$3\frac{7}{8}$	100	Nomura Int.	3.875
Cheil Foods & Chem.(p)§†	30	2006	15	3	100	Merrill Lynch	3.000
Societe Generale†	102	1993	$1\frac{1}{4}$	zero	94.20	Sanwa Int.	4.896
Postipankki†	102	1993	$1\frac{1}{4}$	zero	94.09	Sanwa Int.	4.994
Ryoden Trading♦	100	1995	4	$3\frac{5}{8}$	100	Daiwa Europe	3.625
Svenska Handelsbanken†	51	1993	$1\frac{1}{4}$	zero	94.01	Sanwa Int.	5.066
EIB†	500	2001	10	$7\frac{1}{2}$	99.55	ABN Amro	7.565
Nafin Securities(t)♦	(t)	1996	5	6	100	Bankers Trust Int.	6.000
Telebras(u)†	100	1993	2	$10\frac{1}{4}$	99.80	Salomon Bros.	10.632
Isetan†	56	1997	$5\frac{1}{4}$	6.4	$101\frac{3}{4}$	Nikko Europe	5.995
Sumitomo Int.Fin.Aust.(v)‡†	50	2001	10	(v)	$101\frac{7}{8}$	Sumitomo Asia	-
SFA Master Trust(a1)‡†	150	1996	5	(a1)	99.48	SBC	-
CANADIAN DOLLARS							
Cariplo (London branch)†	150	1997	6	$8\frac{3}{4}$	101.085	Goldman Sachs	8.512
FRENCH FRANCS							
Credit Lyonnais†	1bn	1998	5	$9\frac{1}{2}$	99.32	Credit Lyonnais	9.678
Credisuez(g)†	500	2000	8	9.2	99.56	Societe Generale	9.280
Banque Paribas(h)†	500	1999	$7\frac{1}{3}$	$9\frac{1}{2}$	99.70	Paribas Capital Mkts.	9.542
Compagnie Bancaire(o)†	1.25bn	1993	1.083	12	100.505	CCF	11.425
Mitsui Mining & Smelting♦	380	1995	4	$6\frac{3}{8}$	100	Credit Lyonnais	6.375
Credit Local de France†	2bn	2001	9	zero	45.326	CCF	9.190
Comptoir d'Entrepreneurs†	700	1994	2	$9\frac{1}{2}$	100.74	CCF	9.079
AUSTRALIAN DOLLARS							
Guinness Finance Aust.†	75	1996	4.917	10	102	Hambros Bank	9.471
D-MARKS							
Shinsho Corp.(b)♦†	90	1995	4	$5\frac{1}{8}$	100	Yamaichi Bk.(Deutsch.)	5.125
Euro.Coal & Steel Comm.†	560	1998	5	$8\frac{5}{8}$	101.40	Dresdner Bank	8.272
Rabobank Nederland†	250	2001	10	$8\frac{1}{4}$	$102\frac{3}{8}$	Sch'cher.B'Verein.	7.898
Eurofima★★†	200	1997	5	$8\frac{5}{8}$	$101\frac{1}{2}$	BHF-Bank	8.247
SWISS FRANCS							
Hokuetsu Paper Mills(c)★★♦†	120	1995	-	$5\frac{3}{8}$	102	WPZ	4.813
Ohbayashi Rd.Con.(n)★★♦†	100	1995	-	$4\frac{1}{2}$	100	Nomura Bk. (Switz)	4.500
Kameda(a)★★♦†	30	1995	-	$4\frac{5}{8}$	100	SBC	4.625
ADO Electronic Ind.(d)★★§†	20	1996	-	$4\frac{1}{4}$	100	Banca del Gottardo	4.245
Nippon Metal Ind.(j)★★♦†	130	1995	-	$4\frac{1}{2}$	100	Bank Leu	4.500
Hotel New Hankyu(e)★★♦†	50	1995	-	$4\frac{1}{2}$	100	SBC	4.500
Nagaso Brothers Inc.(i)★★§†	40	1996	-	$4\frac{1}{4}$	100	UBS	4.246
Sumitomo Light Metal(f)★★♦†	85	1995	-	$4\frac{3}{8}$	100	Banca Del Gottardo	4.375
Cleanup Corp(k)★★§†	50	1996	-	6	100	Daiwa (Switz)	6.087
Cleanup Corp(l)★★♦†	50	1996	-	$4\frac{1}{4}$	100	New Japan Secs.	4.294
Kibun Food Chemifa(m)★★§†	20	1996	-	$4\frac{1}{2}$	100	Nomura (Switz)	4.495
Tada Corp(q)★★§†	50	1996	-	$6\frac{3}{4}$	100	Yamaichi Bank (Switz)	6.738
Inter-American Devt.Bank†	300	2002	-	$7\frac{1}{4}$	$101\frac{3}{8}$	Credit Suisse	7.054
Nippon Data Kiki(x)★★§	35	1996	-	$4\frac{1}{4}$	100	UBS	4.250
Tohwa Industry(y)★★‡†	10	1998	-	(y)	$101\frac{1}{2}$	Mitsubishi Bk (Switz)	-
Saibu Gas(z)★★♦	100	1995	-	$4\frac{3}{4}$	100	Yamaichi Bank (Switz)	4.750
Fujikura★★♦	100	1998	-	$5\frac{1}{4}$	100	UBS	5.250
GUILDERS							
NMB Postbank Groep(b1)†	400	2002	10	$9\frac{1}{8}$	100.60	NMB Postbank	9.000
ABN Amro Bk Hding.NV(r)♦†	500	2002	10	$9\frac{1}{8}$	$108\frac{1}{2}$	ABN Amro	7.866
Merrill Lynch†	150	1995	3	$9\frac{3}{8}$	100.15	ABN Amro	9.315
YEN							
Tokyo Electric Power†	70bn	1996	5	6	99.80	Nomura Int.	6.048
Japan Airport Terminal†	15bn	1999	$7\frac{1}{4}$	6.4	$101\frac{1}{2}$	Yamaichi Int.	6.132
Kanematsu Corp†	20bn	2000	$8\frac{1}{4}$	6.45	101.60	Yamaichi Int.	6.191
World Bank(w)†	80bn	1996	$4\frac{3}{4}$	6	101	Nikko Europe	5.748
Toyo Sash†	30bn	1999	$7\frac{3}{4}$	6.4	101.45	Nomura Int.	6.140
LUXEMBOURG FRANCS							
Sparkassen Bikuben★★†	600	1998	7	$9\frac{1}{2}$	$102\frac{1}{8}$	BCEE	9.077
Cregem Finance NV(s)†	2.5bn	2002	10	$9\frac{1}{4}$	102	Cregem Int.	8.939
Credisuez†	750	2001	9	$9\frac{3}{8}$	$101\frac{5}{8}$	Bque.Indosuez (Lux.)	9.103
Ford Motor Credit†	2bn	1997	5	$9\frac{1}{2}$	101.80	KBL	9.037

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. ♠Variable rate notes. †Final terms. a) Exercise premium fixed at 2.5%. Non-callable. b) Exercise premium fixed at 2.54%. Non-callable. c) Exercise premium fixed at 2.52%. Non-callable. d) Conversion premium fixed at 2.55%. Callable 31/3/92 at 102% declining ¼% semi-annually. e) Exercise premium fixed at 2.53%. Non-callable. f) Exercise premium fixed at 2.54%. Callable 19/6/93 at 101¼%. g) Investors have option of re-investing coupon payments in new bonds. h) Fungible with existing FFr1bn deal. Non-callable. i) Conversion premium fixed at 2.5%. Put option 30/9/94 at 110¾% to yield 7.851%. j) Exercise premium fixed at 2.57%. Callable 19/12/93 at 101% and 19/12/94 at 101½%. k) Conversion premium fixed at 2.51%. Non-callable. l) Conversion premium fixed at 2.61%. Put option 31/3/94 at 108¼% to yield 7.617%. m) Conversion premium fixed at 2.57%. Put option 31/3/94 at 108⅝% to yield 8.063%. n) Exercise premium fixed at 2.52%. Callable 12/12/93 at 102% declining ½% semi-annually. o) Bond pays single coupon of 12% at redemption, so that yield offers a spread of 37bp over 1/93 (BTAN). Fungible with existing FFr1.25bn deal. p) Put option after 5 years at 121.645% to yield 6¾%. Conversion premium fixed at 11.55%. q) Conversion premium fixed at 2.66%. Non-callable. r) Subordinated issue. Coupon payments made in guilders but principle redeemed in US dollars. Each bond has a put warrant attached to sell US dollars for guilders. Exchange rate fixed at Fl1.9378. s) Amount increased from LFr1.5bn. Non-callable. t) Amount – up to $100m. Issue linked to Mexican Stock Exchange. Non-callable. u) Put option after 1 year at par. Coupon payable semi-annually. v) Callable 19/12/94 at par. Coupon pays 50bp over 6-month Libor for first 3 years, then fixed at 9¼% thereafter. w) Fungible with existing Y75bn deal. Non-callable. x) Put option 31/3/94 at 109½% to yield 8.899%. y) Coupon pays 0.4% over 6-month Libor. Non-callable. z) Callable 19/6/94 at 101½% declining ½% semi-annually. a1) Issue backed by credit card receivables. Callable at 100% from 22/5/95. Coupon pays 45bp over 3-month Libor. b1) Subordinated issue. Non-callable. Note: Yields are calculated on AIBD basis.

UK GILTS

Yields fall as investors take heart

GILT yields fell for the second week running as the market took heart from a firmer pound and strong buying pressure from UK institutions.

With many pension funds and other financial groups deciding to switch more money out of equities and into bonds, gilt prices rose last week by larger amounts than for virtually all the other main government bonds. The exception was US Treasury stock, where prices rose on the back of extremely weak US economic data.

The gilt rally followed low demand for the stocks during October and November, after a spurt in activity in the market in the late summer. For long-maturing gilts, prices rose by roughly 1½ points, with a decline in yield of some 0.2 per cent (20 basis points).

The strong demand by investors fitted in with the widespread perception that the UK economic recovery will probably be muted, with little sustained growth likely until after next summer. Accordingly, many institutions have shunned equity markets and put liquid funds into bonds.

Last week, the decline in yields for 10-year gilts was substantially above the yield reductions apparent for German, French, Japanese and Dutch bonds. The decline in yields for these instruments was 5, 4, 3 and 7 basis points respectively, according to calculations by UBS Phillips & Drew.

The better performance by gilts in relation to other bonds narrowed the difference in yields between UK and German government bonds to around 150 basis points. This is much the same figure as in late August, at about the start of the last significant gilts rally.

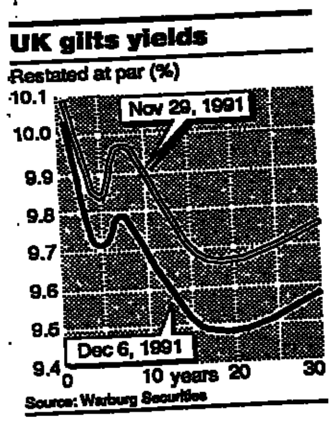
The big question now for many gilt investors is whether the instruments can repeat their performance during September, a golden month for gilts in which the yield spread in relation to German bonds fell to only about 100 basis points. However, it widened again during the past two months as demand for gilts lessened.

As of last Friday, the yield on a 10-year gilt was about 9.7 per cent, against 8.2 per cent for the comparable German stock.

The omens for the coming week look reasonably promising from the viewpoint of the gilt market. A rush of new economic data is likely to provide fresh evidence about the lack of UK inflationary pressures, so helping to sustain gilt prices.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Today's credit business figures and tomorrow's data on wholesale prices of manufactured goods are expected to provide further details about the improbability of a strong, imminent revival in the UK economy.

Further ahead, however, many observers expect a recurrence of political jitters ahead of next year's election which could unsettle the gilt market, and lead to a reduction in buying pressures especially from overseas institutions. The yield on the 10-year gilt could well fall further to around 9.6 per cent over the next few weeks, but whether it will come down more than that looks much more uncertain.

As for last week, the market was encouraged by the good reception to the £500m of new gilts offered by the Bank of England on Monday. The £100m of 9½ per cent conversion bonds maturing in 2005 was completely taken up that day, while the £400m worth of shorter-dated gilts maturing in 1996 and 2001 found customers by Thursday. It appears that – having taken up the longer-dated stock of a type which has been highly popular with institutions in recent weeks – customers switched up the yield curve to turn their attention to the shorter-maturing instruments which have been less in demand.

The smooth process of the sale must have caused quiet pleasure to the Bank market operators who are charged with finding buyers for up to £40bn worth of government bonds over the next two years. The mega bond sale will be required as the recession and its aftermath forces the UK to borrow to pay for public spending.

Peter Marsh

JAPANESE BONDS

Hopes of interest rate cut bolster market

THE Japanese government bond market has been posting new highs for the year, bolstered by hopes of lower interest rates as the economy slows and inflationary pressures ease.

A fall in short-term interest rates prompted institutional investors to shift portfolio funds into bond investments.

Last week, the yield on the No 129 10-year benchmark bond fell to a year's low of 5.64 per cent, breaking through an important resistance level of 5.80 per cent, while the three-month certificates of deposit fell sharply to 6.10 per cent.

The rally comes after a temporary lull in the market during the first few weeks of last month when Mr Kiichi Miyazawa took over as prime minister.

Speculation that Mr Miyazawa, seen as an advocate of economic expansion, would try to boost the slowing economy by increasing expenditure unnerved investors. They were concerned that the government would issue extra bonds to fund next year's spending.

"There were worries over an extra supply of bonds in the market," says Mr Eric J. Miller, a trader at Barclays de Zoete Wedd. However, most market participants are now convinced that the amount will be modest, and are focusing on positive factors, such as the slowing economy.

The recent spate of economic indicators has reflected the downturn of the economy. Industrial production for October fell by 2 per cent year-on-year, sharply below expectations. Slower demand is pushing down inflation, and core consumer prices for November in the Tokyo metropolitan area increased by 2.5 per cent.

The gross national product figures for the third quarter, announced last week, also encouraged investors. While the year-on-year rise of 4.2 per cent was stronger than expected, quarterly-based figures highlighted the deceleration.

The economy expanded by a mere 0.4 per cent – an annualised rate of 1.6 per cent, compared with 2.8 per cent in the second quarter and 11 per cent in the first three months of 1991.

Together with weak corporate interim earnings results announced recently, the figures have raised investors' hopes that the Bank of Japan will allow overnight call rates to fall below 6 per cent in the near future.

On the other hand, while evidence of a slowing economy has supported the bond market, the Tokyo stock market has failed to recover from its prolonged slump. Last Monday, the Nikkei average plunged 3 per cent, triggering a "flight to quality" to the bond market.

UBS Phillips & Drew says the bond rally reflects demand by institutional investors, due to their historically low weightings in bonds and high weightings in equities. In October, investment trusts held 50.8 per cent in equities, 16.3 per cent in bonds and 31.3 per cent in cash.

Market participants now focus on this week's release of the Bank of Japan's quarterly survey on business sentiment.

It will give investors an insight into how the central bank views the economic situation. With last week's cut in the US federal funds rate giving the Bank of Japan room to manoeuvre rates, institutional investors are expected to shift funds into the bond market.

Emiko Terazono

US MONEY AND CREDIT

All eyes on yet further easing

THE US Federal Reserve eased monetary policy on Friday, but Wall Street is already asking how long it will be before it cuts interest rates yet again.

The central bank cut its target for the key Fed funds rate from 4.75 per cent to 4.5 per cent on the heels of a very gloomy set of employment statistics. Unemployment remained at 6.8 per cent in November – presumably because discouraged workers are no longer looking for jobs – even as non-farm payrolls declined by 241,000, far greater than the 80,000 jobs the market had been expecting.

The figures gave further weight to a run of statistics suggesting that the economy is in grave danger of a "double dip" recession. Mr Alan Greenspan, the Fed chairman, said in a speech on Friday that the recovery had shown "signs of faltering".

Earlier last week, the government cut its estimate of third-quarter growth in gross domestic product from 2.4 per cent to 1.7 per cent, and the revised figures showed that inventory accumulation had been higher than expected and final demand weaker, both of which could point to further problems ahead.

Meanwhile, Christmas retail sales got off to an unexciting start, and car manufacturers began to cut their production plans for the first quarter of next year. There is no sign of the revival in consumer confidence which, it is agreed, is necessary to fire a sustained recovery.

Wall Street is, therefore, anticipating even greater easing moves by the Fed, whose policy-making Open Market Committee meets on December 17. It is widely expected to consider a cut in the discount rate – the rate at which banks borrow funds from the central bank's discount window – from 4.5 per cent to 4 per cent. Since the discount rate is traditionally lower, or the same, as Fed funds, this could pave the way for a further quarter-point easing in the latter rate.

The Fed's action will depend to some extent on the inflationary outlook, but statistics due this week seem unlikely to be an impediment to further easing. The November figures for producer prices (due on Thursday) and consumer prices (due Friday) are expected to show a moderation of inflationary pressures, with both expected to rise by between 0.2 per cent and 0.3 per cent.

Mr Greenspan, in Friday's speech to the Securities Industry Association, said the groundwork was being laid for a more efficient growing economy. "Inflation pressures have abated, and the inflation rate is headed down," he went on. "Many households and businesses have improved their financial condition and are in better shape to support more normal patterns of borrowing and spending."

The net effect of all this was positive for the bond market, with the benchmark 30-year Treasury bond rallying 1⅛ on the week, while its yield dipped from 7.93 to 7.80.

At the same time, the spread between the 30-year bond and 10-year notes narrowed further on Friday, to end the week around 57 basis points compared with 67 at Wednesday's close.

This trend emerged after Mr Nicholas Brady, the treasury secretary, told a Congressional hearing on Thursday that he might consider limiting the issuance of 30-year bonds. The implication seemed to be that the government might fund more of its requirements from the intermediate part of the yield curve in an effort to put downward pressure on the long end of the market, which has not benefited so fully from the sharp drop in interest rates over the past year.

The economic gloom and the prospect of further Fed easing makes the outlook for the bond market over the next few months look good, with many analysts suggesting the yield on long bonds could drop as low as 7.5 per cent.

The medium-term outlook may not be quite so rosy. President George Bush is promising an economic package in next month's state of the union address and, while he is also insisting on fiscal restraint, the politicians will be anxious to demonstrate their pump-priming abilities in an election year.

The size of the budget deficit, projected at up to $375bn in the year to next October, will limit their room for manoeuvre, and thus the scope for an inflationary stimulus (while also maintaining upward pressure on government bond yields).

But all recessions eventually end, and unless the most pessimistic analysts are right, the economy could be recording substantially faster growth by the middle of next year and the interest rate cycle could have tipped the Fed in a tightening direction.

Martin Dickson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	4.37	4.75	4.63	11.00	2.00
Three-month Treasury bills	4.34	4.46	4.75	8.29	4.34
Six-month Treasury bills	4.37	4.55	4.86	7.70	4.37
Three-month prime CDs	4.75	4.90	5.00	7.17	4.75
30-day Commercial Paper	4.90	5.05	4.92	7.12	4.85
90-day Commercial Paper	4.70	4.85	4.96	7.02	4.70

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	102	+1⅛	6.74	6.94	7.07
20-year Treasury	116¼	+1⅜	7.50	7.70	7.72
30-year Treasury	102[illegible]	+1½	7.80	7.93	7.90

Source: Salomon Bros (estimates)

Money supply: In the week ended November 25, M1 rose by $1.5bn to $890.3bn

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 9 3/4 94	200	107	+¼	6.25
ABN 9 1/8 94	200	105⅝	+⅛	6.61
AETNA LIFE & CAS 7 3/4 16	200	101⅞	+⅛	7.62
ALBERTA PROVINCE 8 5/8 96	750	107	+1	6.91
ALBERTA PROVINCE 9 3/8 95	600	109¼	+⅛	6.59
AMERICAN EXPRESS 0 00	450	46⅞	+⅞	8.77
AMERICAN GENERAL 9 3/4 95	100	106⅛	+1	7.69
AMERICAN INTL 0 04	750	35⅛	+⅛	8.53
ASIAN DEV BANK 0 04	1000	35⅞	+⅛	8.38
AUSTRALIA 11 95	200	112	+⅛	6.97
AUSTRIA 7 3/4 97	200	103½	+1⅛	6.92
AUSTRIA 8 1/2 00	400	105⅛	+1⅛	7.52
[illegible]	100	108⅝	+1¼	6.96

	Issued	Bid price	Chg on week	Yield
SAAB 9 1/2 95	500	108⅜	+⅛	6.54
SEAGRAM CO 8 1/2 96	100	102⅞	+½	7.71
SEARS O/S FIN 0 98	500	57⅞	+⅛	8.67
SEARS O/S FIN 11 5/8 95	150	107⅞	+⅛	6.94
SEARS ROEBUCK EURO 9 3/4 95	500	105½	+½	7.80
SNCF 7 1/4 96	175	103⅛	+½	5.65
SNCF 9 1/2 98	150	110⅞	+1¼	7.35
STATE BK NSW 8 1/2 96	200	105	+1	7.16
STATE BK STH AUST 9 1/4 93	100	103⅞	+⅛	5.72
STATOIL 7 5/8 94	200	102	+⅛	6.60
STH AUST GOVT FIN 8 3/4 93	100	103⅞	+⅛	5.75
SUMITOMO BK CAP MKT 9 3/8 93	150	105⅝	+⅛	6.23
SWEDEN 8 1/8 94	150	104⅝	+⅛	6.11
SWEDEN 9 1/4 98	350	109⅝	+1⅛	7.24
SWEDISH EXPORT 9 5/8 93	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	88	+½	7.18
AUSTRIA 4 5/8 98	100	89	+⅛	6.86
CHUBU ELEC POWER 6 3/4 01	300	98¼	−⅛	6.92
COUNCIL EUROPE 4 3/4 98	250	87⅛	+⅛	7.27
EEC 5 1/2 00	100	90	+⅛	7.04
EIB 6 1/2 96	600	98¼	−⅛	6.83
ELEC DE FRANCE 7 1/4 06	100	101⅞	+⅛	7.05
FINLAND 5 3/8 95	150	94	+½	7.19
GENERAL MOTORS 7 1/2 95	100	98	−1	8.19
JAPAN DEV BK 5 1/2 94	100	97¼	+1⅛	6.89
KOBE 6 3/8 01	240	95	+½	6.95
NEW ZEALAND 4 7/8 99	200	86	−⅛	7.46
QUEBEC HYDRO 5 08	100	73½	+½	7.95
WORLD BANK 5 03	150	84⅞	−⅛	7.02
[illegible]	600	101⅛	−⅛	6.81

	Issued	Bid price	Chg on week	Yield
OSTER POSTSPARK 10 1/2 94	200	101⅞	+⅛	6.02
PEPSICO 7 3/8 93	200	101⅞	+⅛	6.80
PETRO-CANADA 7 1/4 96	200	105⅞	+⅛	8.70
PHILIP MORRIS 9 7/8 98	150	102⅞	−⅛	9.00
PROCTER & GAMBLE 10 95	365.216	57½	+⅛	8.10
PRUDENTIAL RLTY SECS 0 99	97.75	105⅝	+⅛	7.12
QANTAS AIRWAYS 8 5/8 96	300	105⅛	+1¼	8.18
QUEBEC HYDRO 9 01	150	110¼	+1½	7.75
QUEBEC HYDRO 9 3/4 98	200	106⅞	+1½	7.63
QUEBEC PROV 9 98	100	110⅝	+⅛	6.87
QUEENSLAND GOVT 10 1/4 95	150	112⅞	+⅛	7.50
RALSTON PURINA 11 3/4 99	150	107⅞	+⅛	7.81
REED PUBLISHING 9 5/8 97	100	102⅞	+⅛	8.86
REYNOLDS (RJ) 10 1/4 93	150	107½	+⅛	7.22
SAINSBURY 9 1/8 96	150	104⅝	+⅛	6.41
SARA LEE 9 3/8 93	200	106⅞	+1¼	8.67
SAS 10 99	150	108⅞	+⅛	7.60
SAS 10 1/8 95	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Bid price	Chg on week	Yield
BULGARIAN TRADE BK 8 1/2 96	200	84⅞	−⅛	11.18
CZECH OBCHODNI BANKA 10 95	350	96⅛	−⅛	8.62
DEUTSCHE FINANCE 7 1/2 95	1000	97	−⅛	8.37
EIB 5 3/4 98	400	87⅞		8.02
EIB 6 7/8 95	300	96⅛	−⅛	8.45
EUROFIMA 6 1/4 98	400	87⅞	−⅛	10.19
FIRST INTERSTATE 5 3/4 96	100	84⅛	+⅛	8.66
IND BK JAPAN FIN 5 5/8 96	200	89⅛	−⅛	11.02
IND DEV BK INDIA 6 3/8 94	200	84⅞	+⅛	8.68
LUFTHANSA INT FIN 5 7/8 98	500	86⅞		10.04
NACIONAL FINANCIERA 11 95	150	102⅞	+1½	10.46
NAT BK HUNGARY 8 96	200	90⅞	+⅛	8.69
QUEBEC HYDRO 6 3/4 99	300	89⅞	−⅛	8.44
SWEDEN 6 1/8 98	500	89	+⅛	7.39
WORLD BANK 0 15	2000	18	+⅛	8.40
WORLD BANK 5 3/4 96	300	90⅛	+⅛	8.25
WORLD BANK 7 1/8 95	500	97	−⅛	[illegible]

EQUITY WARRANTS				
ASAHI GLASS	[illegible]	[illegible]	[illegible]	17.77
CANON	24/05/95	12⅛	+1⅛	32.19
HANKYU DEPT STORES	14/02/96	10⅞	+⅛	36.97
HINO MOTORS	06/07/94	3	−⅛	30.19
KOBE STEEL	12/06/96	6½	−½	
MITSUBISHI EST	11/02/94	1½	+⅛	
MITSUI TOATSU CHEM	30/01/98	3½	−⅛	15.19
MORINAGA	13/06/95	19⅛	−⅛	24.36
NICHIREI CORP	17/06/98	17		19.89
NIPPON COMSYS	31/01/95	15½	+1	77.90
NISSHIN STEEL	18/04/96	3⅛	−⅛	44.97
ROYAL HOTEL	14/03/95	4⅛	−1⅛	
SMC	29/07/95	8⅛		13.39
TAKASHIMAYA	02/07/96	17	−1⅛	
TOYO SASH	05/08/97	3⅛	+⅛	16.79
YAMANOUCHI PHARM	01/03/94	16⅛	−⅛	

[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on December 6

THE WEEK AHEAD

ECONOMICS

Markets seek summit commitment

THE Maastricht summit will inevitably dominate economic and political concerns in Europe this week.

The currency markets will be anxious for the EC leaders to commit themselves to the principles of monetary union in the interests of foreign exchange stability.

A commitment would serve to underpin the grid of currencies in the European exchange rate mechanism, even if a single currency does not take effect until the next century. *The Dutch have stipulated that* economic convergence should be achieved in four key areas: inflation, long-term interest rates, fiscal policy and exchange rates.

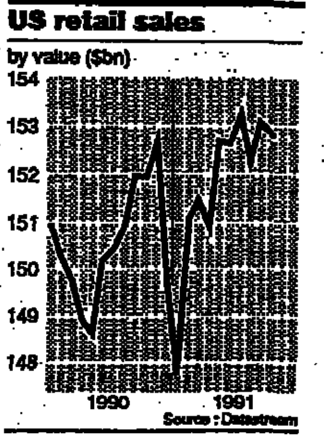
There are plenty of statistics out in the week. In the UK, inflation news is available in tomorrow's producer prices indices and Friday's RPI.

Last month, output prices rose at a year-on-year rate of 5.2 per cent and are expected to rise by 5 per cent in November as underlying inflationary pressures continue to ease.

The headline retail prices *index is expected to benefit* from some further reduction in

US retail sales

by value ($bn)



Source: Datastream

mortgage costs but to rise after October's 3.7 per cent to a year-on-year rate of 4.2 per cent.

In Japan, the Tankan survey is expected to provide further evidence that the economy is weakening and inflation abating, with business confidence due for another fall in November.

The highlights of the week, with projections provided by MMS, are as follows:

Today: Maastricht: EC summit meeting (continues December 10). Switzerland: Basle, BIS meeting. US: third quarter manufacturers' financial report. UK: October credit business (flat), final retail sales (down 0.5 per cent). Canada: November housing starts (180,000), October motor vehicle sales (down 14 per cent), September wages and salaries.

Tomorrow: US: EC energy and environment ministers meet to discuss oil tax. Japan: Bank of Japan releases quarterly Tankan report. US: October housing completions, third quarter current account. UK: producer prices input (down 0.5 per cent m/m, down 1.2 per cent y/y), output (0.2 per cent m/m, 5.0 per cent y/y). Japan: machinery orders. Canada: third quarter manufacturing capacity utilisation (71.8 per cent), October new housing price index.

Wednesday: US: October wholesale trade, third quarter invisible trade (£600m). Japan: November trade balance ($5.3bn). Canada: October farm product price index.

Thursday: UK: CBI distributive trades survey. US: November producer prices index excluding food and energy (0.2 per cent), November retail sales (flat) excluding autos (0.1 per cent), November money supply, initial claims (447,500), state benefits for week ended November 23. Japan: wholesale prices index (0.1 per cent m/m, down 1.2 per cent y/y). Australia: November unemployment rate (10.45 per cent), November employment (down 10,000), October retail trade (0.5 per cent)

Friday: US: October consumer prices index excluding food and energy, September business inventories, November real earnings, December 1-10 auto sales. UK: November retail prices index (0.3 per cent m/m, 4.2 per cent y/y). November RPI less mortgage interest payments 5.7 per cent). Canada inventories to shipments ratio (1:50:1), October unfilled orders (0.5 per cent).

During the week: Germany November WPI (0.2 per cent), November PPI (0.2 per cent m/m, 2.8 per cent y/y). Germany, September production (east), October retail sakes (y/y). Spain, November consumer prices index.

Rachel Johnson

RESULTS DUE

Scottish & Newcastle's first half pre-tax profits today are expected to be around the same level as last year's £114.5m. Forecasts range marginally each side of the figure, largely depending on estimates of interest charges. The brewer is generally expected to report a gain in beer market share, helped by its strength in the take-home trade and slightly easier trading conditions in its northern estate.

It has been a tough year for contract catering and analysts are prepared for relatively unexciting figures from Compass Group, the catering to health services concern, which is reporting final results for the year to end September tomorrow. The environment for catering has remained difficult with volume increases offset by lower spend per contract. The private hospital business, meanwhile, has seen an increase in the number of patients covered by insurance offset by a decline in the number of self-paying patients. The departure of the chief executive, however, is not as worrying as it may seem because of the strength of the team remaining. Analysts are looking for pre-tax profits of £32m (£29.50m) for the year.

On Wednesday Anglo United, the UK fuel distribution group, is expected to announce interim pre-tax profits of £3m (£1.1m). After disposals it will have made a pre-exceptional loss of £2m in the six months to 30 September.

Dowty Group, the aerospace components manufacturer, is expected to report on Thursday a 60 per cent fall in profits from £37.1m to £15m for the six months to the end of 30 September 1991. Analysts are looking for a maintained interim dividend of 3.6p.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Aberdeen Steak Houses, 21 Coventry Street, W., 10.00
Gartmore European Inv. Trust, Gartmore House, 16-18 Monument Street, E.C., 11.00
BOARD MEETINGS:
Finals:
Hunterprint
Venture Plant
Interims:
Marling Inds.
Reliance Security
Rolfe & Nolan Comp. Srvs.
TGI
Unit

■ TOMORROW
COMPANY MEETINGS:
Amber Day, The Savoy Hotel, Strand, W.C., 10.30
Barry Wehmiller Intl., 1 *Finsbury Avenue, E.C., 12.00*
London & St Lawrence Inv., 111 Cannon Street, E.C., 12.30
BOARD MEETINGS:
Finals:
Ashley Group
Carlton Comms.
Compass
Devenish (J A)
Holmes & Marchant
Richards
Sage
Sturge
Titon
Vaux
Interims:
Assoc. British Eng.
Atkins
Bell (A H)
Booth Inds.
Charter Cons.
Cray Electronics
Elga
Feedback
Midlands Electricity
Multitone Electronics
Scott Pickford
Shandwick
Siam Selective Growth
Total Systems
Triplex Lloyd
Whitecroft

■ WEDNESDAY DECEMBER 11
COMPANY MEETINGS:
BBB Design, 2-3 Bloomsbury Square, W.C., 11.00
Five Oaks Invs., The Savoy Hotel, Strand, W.C., 10.30
Fleming Japanese Inv. Trust, 25 Copthall Avenue, E.C., 12.00
Kalamazoo, Mill Lane, Northfield, Birmingham, 11.00
Majedie Invs., Guild House, 36-38 Fenchurch Street, E.C., 12.15
TIP Europe, Armourers Hall, 81 Coleman Street, E.C., 11.00
BOARD MEETINGS:
Finals:
Albion
Automagic
Baggeridge Brick
Blick
Granada
Greenalls
Turkey Trust
Interims:
Anglo United
Berkeley
Bulmer (H P)
ERF
Fuller, Smith & Turner
M & G Second Dual Tst.
Northern Electric
Plysu
Scottish Power
Security Archives
Severn Trent
Stewart & Wight
Toshiba
Wardell Roberts

■ THURSDAY DECEMBER 12
COMPANY MEETINGS:
Albert Fisher, Royal Lancaster Hotel, W., 12.00
Glasgow Income Trust, Hutchesons' Hall, 158 Ingram Street, Glasgow, 7.00
New Cavendish Estates, 43-44 Albemarle Street, Mayfair, W., 12.00
Overseas Inv. Trust, 23 Great *Winchester Street, E.C., 12.00*
Raglan Property Trust, Farmers' & Fletchers' Livery Hall, 3 Cloth Street, E.C., 10.00
Scottish National Trust, Charles Oakley House, 125 West Regent Street, 12.00
Smart (J.), 28 Cramond Road South, Edinburgh, 12.00
Wardle Storeys, Brantham Works, Brantham, Manningtree, Essex, 9.30
BOARD MEETINGS:
Finals:
Acatos & Hutcheson
Archer (A. J.)
Countryside Props.
Grainger Trust
Johnson & Firth Brown
ML Laboratories
Mining & Allied Supplies
River Plate & General
Strata Invs.
Sycamore Hldgs.
Watson & Philip
Interims:
Brown Shipley
Dowty
Fine Art Developments
Firstland Oil & Gas
Harland Simon
Joseph (Leopold)
Learmonth & Burchett
MS Intl.
NMC
Smith New Court
Southern Water
South Western Electricity
Sterling Publishing
TR Technology
Tinsley (Eliza)

■ FRIDAY DECEMBER 13
COMPANY MEETINGS:
British Empire Securities & Gen. Trust, Saddlers' Hall, Gutter Lane, Cheapside, E.C., 12.00
McKechnie, Metropole Hotel, Natl. Exhibition Centre, Birmingham, 12.00
Prestwick, The Station Hotel, Ayr, 11.30
Wolseley, Vines Lane, Droitwich, Worcestershire, 2.30
BOARD MEETINGS:
Finals:
Carr's Milling Inds.
Interims:
Abtrust New Dawn Inv.
Boscombe Property
Henderson Highland Tst.

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Anheuser-Busch 28cts.
Boxmore Intl. 2.15p
Elys (Wimbledon) 1.5p
European Inv. Bank 9½% Ln. 2009 4.75pc.
Office & Elect. Machines 0.1p
Pochin's 18p
Prowting 1.7p
Rockwell Intl. 23cts.
Securities Tst. of Scot. 1.08p
Tarmac 3p
Treasury 10% Ln. 1994 5pc.
Tronoh Mines Malaysia Berhad 15cts.

■ TOMORROW
Allied-Signal 25cts.
Chevron 82.5cts.
Coles Myer 18cts.
Dai-Ichi Kangyo Bank Y4.75
Dun & Bradstreet 54cts.
Exxon 67.5cts.
Fuji Bank Y4.75
General Motors 40cts.
Grace (W. R.) 35cts.
Green (Ernest) 4.25p
Hammerson Prop. Inv. 3.5p
Do. A 3.5p
Honda Motor Y7
Leeds Permanent Bldg. Soc. 13⅝% Perm. Int. Brng. 6.8125pc.
Lilly (Eli) 50cts.
Lon & St Lawrence Inv. 3.66p
Metsec 2.7p
Mitsubishi Bank Y4.25
Mitsui Taiyo Kobe Bank Y4.25
Mitsui Tst. & Banking Y4.25
Mobol 80cts.
NEC Y5
Petrocon 0.625p
Quarto 1.6125p
Sanwa Bank Y4.25
Scott Paper 20cts.
Sumitomo Tst. & Banking Y4.25
Sun Co. 45cts.
Taisei Corp. 7.1% Bds. 1999 3.55pc.
Do. 7.1% Bds. 1998 3.55pc.
Tenneco 40cts.
Texaco 80cts.
Tokai Bank Y4.25
Toshiba Y5
Transfer Tech. 0.125p
Travelers 40cts.
Treasury 8% 1991 4pc.
United Tech. 45cts.
VTR 2.2p
Warner-Lambert 44cts.
Yasuda Tst. & Banking Y4.25

■ WEDNESDAY DECEMBER 11
Allied Irish Banks 3.6p
Allied Leisure 3.25p
Bank of Ireland Und. Fltg. Rate Prim. Cap. Nts. $150.09
Chase Manattan Corp. Fltg. Rate Nts. 2009 $145.93
Ferguson Intl. 4.25p
Glynwed Intl. 4.15p
Hongkong & Shanghai Banking Corp. Prim. Cap. Und. Fltg. Rate Nts. Sec. Ser. $74.25
Inter-American Dev. Bank 11% Bds. 5.5pc.
Lloyds Bank Prim. Cap. Und. Fltg. Rate Nts. $336.77
Temple Court Mortgages Class A1 M-L Mtg. Bckd. Fltg. Rate Nts. 2031 £263.44
Do. Class A2 M-L Mtg. Bckd. Fltg. Rate Nts. 2031 £267.31
Treasury 3% 1992 1.5pc.
Woolwich Bldg. Soc. Fltg. Rate Nts. 1994 £255.65

■ THURSDAY DECEMBER 12
Allied Irish Banks Fltg. Rate Nts. 1995 $333.59
Conversion 9½% 2002 4.75pc.
Eaton Finance NV 12½% Uns. Ln. 2014 (Br.) 6.25pc.
Do. 12½% Uns. Ln. 2014 (Reg.) 6.25pc.
FR 2.34p
First Interstate O'seas NV Gtd. Fltg. Rate Sub. Nts. 1995 *$143.77*
Hemlo Gold Mines 2.625p
Hewden-Stuart 0.865p
Johnston 4.5p
KG Intl. Trade & Fin. 7% Bds. 1995 3.5pc.
Kalamazoo 1.5p
Monsanto 52cts.
Photo-Me Intl. 3p
Royal Bank of Canada Fltg. Rate Deb. Nts. 2085 $146.93
Do. Canadian Fd. Ptg. Red. Prf. 5cts.
Saker's Finance & Inv. 5½% Prf. 5.5cts.
St James's Place Capital 1.5p
Sweden (Kingdom of) 8⅛% Bds. 1994 4.0625pc.
Usher-Walker 2p

■ FRIDAY DECEMBER 13
BM 1.8p
Bank of Ireland 3.3p
BankAmerica 30cts.
Bankers Tst. New York Fltg. Rate Sub. Nts. 2000 $143.77
Barry, Birch & Noble 1p
CSX 38cts.
Canadian O'seas Pack. Ind. 50cts.
Canadian Utilities 17% Debs. 1996 8.5pc.
Dana 40cts.
ECC 6.6p
East Rand Gold & Uranium 20cts.
Falcon Mines 18cts.
Free State Cons. Gold 105cts.
Investors Capital Tst. 5¼% Prf. 1.8375p
Kajima Y4.5
Kinross Mines 120cts.
Malaysia Mining Berhad 10cts.
Midland Bank Und. Fltg. Rate Prim. Cap. Nts. (Sers. 3) *$335.50*
Multitrust 2p
Orange Free State Invs. 272cts.
Seagram 50cts.
Smith & Nephew 1.75p
Sony Y25
Time Warner 25cts.
Trinova 17cts.
Tudor 0.5p
Welkom Gold 70cts.
Wells Fargo & Co. Fltg. Rate Sub. Nts. 1994 $143.77
Young & Co's Brew. A 7p
Do. NV 7p

■ SATURDAY DECEMBER 14
Agricultural Mortgage 4½% Deb. 81/91 2.25pc.

■ SUNDAY DECEMBER 15
AECI 5½% Prf. 5.5cts.
Pennzoil 75cts.
St Lawrence & Ottawa Railway *4% Stlg. 1st Mtg. Bds. 2pc.*
TRW 45cts.
United Biscuits 8% Deb. 93/98 4pc.

PARLIAMENTARY DIARY

TODAY

Commons: Proceedings on the Aggravated Vehicle-Taking Bill. Motion on teachers' pay and conditions order.
Lords: Further and Higher Education Bill, committee. Nurses, Midwives and Health Visitors Bill, third reading.
Select Committee: Public Accounts – subject, control of Aids. Witnesses: Sir Christopher France, Department of Health; *Mr O. Cruickshank, chief* executive, NHS Scotland. (Room 15, 4.30 pm).

TOMORROW

Commons: Estimates Day: Debates on the financing of private residential and nursing home fees, and on the coal industry. Motion on ministerial and other salaries order.
Lords: Tribunals and Inquiries Bill, second reading. Motion for approval on the ministerial and other salaries order. Welsh Development Agency Bill, second reading. Further and Higher Education Bill, committee. Motion on industrial training levy (construction board) order.
Select Committee: Social Security – subject, operation of pension funds. Witnesses: The Occupational Pensions Advisory Service. (Room 21, 10.30 am).
Committees on opposed private bills: London Docklands Railway (Lewisham, etc) Bill (Room 6, 10 am); British Railways (No.3) Bill (Room 5, 11 am).

WEDNESDAY

Commons: Motions on social security benefits uprating and disability benefits regulations. Debate on fisheries.
Lords: Debate on the government's *legislative* performance. Debate on mortgage repossessions and mortgage debt. Access to Neighbouring Land Bill, second reading. Question to government on progress with the new British Library.
Select Committees: Environment – subject, proposals for an environment agency. Witnesses: Association of Metropolitan Authorities; Association of County Councils; Association of District Councils; Mr John Ferguson, director of the London Waste Regulation Authority (Room 21, 10.30 am).
Foreign – subject, developments in central Europe. Witnesses: Dr Adrian Hydeprice, University of Southampton; Dr Dominic McGoldrick, University of Liverpool, and Mr Edward Mortimer, Financial Times. (Room 16, 10.30 am).
Parliamentary Commissioner for Administration – subject, health commissioner reports for 1990-91. Witnesses: Tower Hamlets Health Authority; Institute of Health Services Management. (Room 19, 10.45 am).
Energy – subject, renewable energy. Witnesses: Friends of the Earth. (Room 8, 11 am).
Foreign Affairs – subject, developments in central Europe. Witnesses: Dr R Baldwin, AVP; *Mr John Mitchell, ICI; Steven* Syrett, European Capital Co; Dr Norman Wooding, East European Trade Council. (Room 18, 4pm).
Employment – subject, industrial change – retraining and redeployment. Witnesses: British Coal Enterprise; TUC. (Room 20, 4.15 pm).
Health – subject, maternity services. Witnesses: Office of Population Censuses and Surveys; Association for Community-based Maternity Care. (Room 21, 4.15 pm).
Home Affairs – subject, prisons policy. Witnesses: Kenneth Baker MP, home secretary; J G Pilling, director general of the Prison Service; A J Butler, director of personnel and finance. (Room 15, 4.30 pm).
Public Accounts – subject, historic buildings. Witnesses: Miss D Nicholls, director general, Property Holdings; Mr G Chipperfield, permanent secretary and chief executive, PSA Services. (Room 16, 4.15 pm).
Transport – subject, preparation for the Channel Tunnel opening. Witnesses: transport department officials. (Room 17, 4.15 pm).
Committees on Opposed Private Bills: London Docklands Railway (Lewisham etc.) (Room 6, 10 am); British Railways (No 3) (Room 5, 10.30 am).

THURSDAY

Commons: Motion for the Christmas adjournment. Proceedings on the Consolidated Fund Bill.
Lords: Further and Higher Education Bill, committee. Offshore Safety Bill, report and third reading.
Select Committees: sittings of the House. Witnesses: Jo Richardson MP. Professor Philip Norton, University of Hull.
Committee on Opposed Private Bills : London Docklands Railway (Lewisham etc.). (Room 6, 10 am); British Railways (No 3). (Room 5, 10.30 am).

FRIDAY.

Commons: Private Members' Motions.

WORLD STOCK MARKETS

AUSTRIA [illegible]

BELGIUM/LUXEMBOURG [illegible]

DENMARK [illegible]

FINLAND [illegible]

FRANCE [illegible]

FRANCE (continued) [illegible]

GERMANY [illegible]

GERMANY (continued) [illegible]

ITALY [illegible]

NETHERLANDS [illegible]

NORWAY [illegible]

SPAIN [illegible]

SWEDEN [illegible]

SWEDEN (continued) [illegible]

SWITZERLAND [illegible]

SOUTH AFRICA [illegible]

JAPAN [illegible]

AUSTRALIA [illegible]

AUSTRALIA (continued) [illegible]

HONG KONG [illegible]

MALAYSIA [illegible]

SINGAPORE [illegible]

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. (a) Dealings suspended. xd Ex dividend. xr Ex scrip issue. xr Ex rights. xa Ex all. [illegible]

CANADA

TORONTO

4:00 pm prices December 6

[illegible]

Sales	Stock	High	Low	Close	Chng
10800	Can Util A	$20½	20½	20⅝	[illegible]
800	Can Util B	$20⅞	20⅞	20⅞	
100	Canamax	30	30	30	
51000	Cantor	$24¾	24½	24¾	
16800	CnfcForest x	$24¼	d23½	23½	−1¼
300	Cara Op	$5½	5½	5½	
200	Cascades	$5⅝	5¾	5¾	
22000	Celanese x	$41	39½	40¼	+¾
33800	Cntrl Cap	40	d28	40	−6
2400	Cineplx Odn	310	300	310	+5
7800	Cntrl Fd A	475	455	460	−10
27200	Cominco x	$22¼	21¾	22¼	+⅛
1000	Coputalog	85	85	85	
1200	Jannock x	$17	17	17⅛	
35100	KerrAddis	$15⅛	15⅛	15⅛	
91800	Labatt	$27¾	27⅛	27⅛	
434000	Lac Minls x	$9½	9¼	9½	+¼
1200	Lafarge	$12⅞	d12½	12½	−½
4800	Laidlaw A	$9¼	8¾	9⅛	+¼
502600	Laidlaw B	$9⅛	8¾	8⅞	+⅛
1100	Laurent Bk	$19¾	19⅞	19⅞	
1000	Laurent Gp x	$6	6	6	
100	Rayrock	600	d600	600	
400	Reed Sten x	$23¼	23	23¼	
300	Reitman S	$18½	18½	18½	−¼
5100	Ren'ssance	$12⅝	d12½	12½	−¼
21000	Repap Ent	480	d470	470	−10
1100	Rio Algom	$15¾	15⅝	15⅝	+⅛
251200	RogersComB	$13¼	13	13⅛	
1000	Rothmans x	$75	75	75	
537500	RoyalBkCan	$26¼	26⅛	26½	−⅛
48200	Ryl Oak Mn	155	151	151	−2
568900	RylTrustco	$7¼	6⅞	7	

MONTREAL

4:00 pm prices December 6

[illegible]

Sales	Stock	High	Low	Close	Chng
83000	MacleanHnt	$10⅞	10¾	10⅞	+⅛
67700	NatBk Can	$11¼	11⅛	11⅛	−⅛
10400	Provigo x	$9⅛	d9	9	−⅛
20500	Quebecor A x	$20½	20⅜	20⅜	−⅛
900	Teleglobe	u$10¾	10⅝	10⅝	
1700	Videotron x	$18	15	15	

Total Sales 13,592,900 shares

INDICES

NEW YORK

DOW JONES	Dec 6	Dec 5	Dec 4	Dec 3	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
ϕIndustrials	2886.40	2889.09	2911.67	2929.56	3077.15 (18/10)	2470.30 (9/1)	3077.15 (18/10/91)	41.22 (2/7/32)
Home Bonds	97.85	97.72	97.63	97.65	97.92 (12/11)	91.30 (16/1)	97.92 (12/11/91)	54.99 (1/10/81)
Transport	1198.62	1203.85	1219.36	1223.28	1287.56 (18/10)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	221.14	218.77	219.70	220.64	221.64 (2/12)	195.17 (10/7)	236.23 (2/1/90)	10.50 (8/4/32)

ϕDay's High 2924.87 (2923.75) Low 2854.65 (2874.78)

STANDARD AND POOR'S	Dec 6	Dec 5	Dec 4	Dec 3	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	379.10	377.39	380.07	380.96	397.41 (13/11)	311.49 (9/1)	397.41 (13/11/91)	4.40 (1/6/32)
Industrials	446 75	444.90	447.83	449.02	472.01 (29/8)	364.90 (9/1)	472.01 (29/8/91)	3.62 (21/6/32)
Financial	30.02	29.90	30.30	30.41	32.54 (13/11)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	209.74	208.96	210.13	210.55	219.37 (13/11)	170.97 (9/1)	219.37 (13/11/91)	4.46 (25/4/42)
Amex Mkt. Value	372.63	371.80	372.32	372.45	392.37 (12/11)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	536.30	534.03	538.28	533.34	556.17 (13/11)	355.75 (14/1)	556.17 (13/11/91)	54.87 (31/10/72)

	Nov 29	Nov 22	Nov 15	year ago (approx.)
Dow Industrial Div. Yield	3.15	3.15	3.10	4.01

	Dec 4	Nov 27	Nov 20	year ago (approx.)
S & P Industrial div. yield	2.80	2.82	2.80	3.42
S & P Indl. P/E ratio	22.98	22.78	22.79	15.37

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
IBM	2,698,500	89	- 1¼
Pepsico	2,644,500	30¼	.....
Gen Elec	2,600,300	63⅞	+ 1½
Wal-Mart	2,415,400	51¼	+ ⅞
RJR Nabisco	2,231,100	10⅝	- ⅛
BankAmer	2,117,500	31⅞	---
Am T & T	2,104,800	37¼	+ ⅛
Gen Motors	1,954,200	29¼	---
Philip Morris	1,878,300	67⅞	- ⅛
Boeing	1,702,300	43	+ ⅞

TRADING ACTIVITY

† Volume (Millions)	Dec 6	Dec 5	Dec 4
New York SE	198.170	166.501	187.934
Amex	16.826	21,702	13,806
NASDAQ	171.831	170.632	167.288
NYSE			
Issues Traded	2,164	2,175	2,142
Rises	853	604	759
Falls	769	1,030	842
Unchanged	542	541	541
New Highs	71	50	46
New Lows	72	62	43

CANADA

TORONTO	Dec 6	Dec 5	Dec 4	Dec 3	1991 HIGH	1991 LOW
Metals & Minerals	2796.48	2781.30	2806.31	2834.08	3299.99 (18/7)	2632.06 (9/1)
Composite	3426.53	3426.63	3427.47	3453.41	3604.09 (12/11)	3161.95 (15/1)
MONTREAL Portfolio	1817.78	1815.84	1811.57	1825.15	1907.35 (12/11)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec 6	Dec 5	Dec 4	Dec 3	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1583.8	1608.2	1614.8	1607.9	1696.3 (8/11)	1204.5 (16/1)
All Mining (1/1/80)	627.9	641.7	646.0	641.5	707.2 (24/7)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	396.43	400.38	404.29	403.54	534.81 (16/4)	385.58 (4/11)
BELGIUM						
BEL20 (1/1/91)	1066.14	1069.46	1077.60	1067.44	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	350.49	351.24	351.85	352.04	380.04 (2/8)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	(c)	803.8	812.0	821.2	1166.9 (8/4)	803.8 (5/12)
FRANCE						
CAC General (31/12/82)	467.01	467.46	472.91	470.84	503.51 (15/11)	394.88 (15/1)
CAC 40 (31/12/87)	1685.72	1703.23	1713.93	1722.21	1887.29 (1/10)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	638.02	636.18	641.47	635.97	717.43 (17/6)	570.48 (15/1)
Commerzbank (1/12/53)	1801.80	1795.80	1812.30	1793.40	2035.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1558.18	1553.42	1560.96	1546.84	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	4190.04	4157.15	4161.59	4124.38	4271.34 (15/11)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1337.99	1342.39	1356.08	1350.69	1520.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	494.63	502.89	509.01	513.28	619.38 (3/6)	486.26 (29/1)
JAPAN						
Nikkei (16/5/49)	22445.06	22459.17	22669.44	22166.83	27146.91 (18/3)	21456.76 (19/8)
Tokyo SE (Topix) (4/1/68)	1706.15	1714.87	1728.47	1708.59	2028.85 (18/3)	1625.00 (17/1)
2nd Section (4/1/68)	2498.02	2496.33	2498.50	2496.92	3423.45 (10/5)	2473.52 (24/1)
MALAYSIA						
KLSE Composite (4/4/86)	530.33	529.32	529.41	528.38	635.02 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Ttl Rtn.Gen.(End 1983)	269.5	271.6	273.1	272.5	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	189.3	190.8	191.8	191.4	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	634.62	623.72	620.94	598.72	793.53 (26/8)	595.77 (2/12)
PHILIPPINES						
Manila Comp (2/1/85)	1102.45	1115.57	1104.29	1106.91	1183.40 (29/5)	582.64 (10/1)
SINGAPORE						
SES All-Singapore (2/4/75)	389.31	389.69	390.42	391.19	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1239.0	1219.0	1225.0	1216.0	1469.0 (5/7)	971.0 (25/2)
JSE Industrial (28/9/78)	4158.0	4158.0	4164.0	4173.0	4364.0 (13/11)	2829.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	635.17	621.04	631.59	643.93	763.10 (6/8)	590.57 (22/6)
SPAIN						
Madrid SE (30/12/85)	(c)	244.68	245.75	244.12	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affarsvariden Gen. (1/2/37)	926.40	918.00	929.10	932.60	1149.8 (11/7)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	718.8	714.8	720.4	714.7	769.3 (14/11)	590.4 (14/1)
SBC General (1/4/87)	580.1	583.7	588.3	584.6	638.0 (31/5)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	4378.13	4340.09	4378.13	4343.24	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	687.39	(c)	670.07	663.75	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) ($)	500.9*	500.6	502.9	501.8	529.2 (17/4)	459.1 (16/1)

**Saturday November 30: Taiwan Weighted Price: 4378.50; Korea Comp Ex. 652.11. *Calculated at 15.00 GMT.
& Subject to official recalculation.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 6 December 1991

	Stocks Traded	Closing Prices	Change on day
Toyo Ink	16.1	840	-14
M'bishi Kakoki	5.5	695	-1
Meiji Milk Prods	4.7	1,080	+10
Okamoto	4.6	1,140	0
Japan Steel	3.9	565	-9
Chugoku Marine	3.7	1,070	+80
Sanyo-Kokusaku	3.2	625	-14
Fuji Oil	2.7	1,200	+20
Kawasaki Steel	2.3	356	+4
Toshiba	2.0	623	-7

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AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071-379-0444.

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INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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FT MANAGED FUNDS SERVICE

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N & P Life Assurance Ltd

6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	Yield Gross	City-line
Life Managed Fd	103.3	108.7	–	41924
Pension Managed Fd	100.9	106.3	–	41926
Life Deposit Fd	111.1	116.9	–	41923
Pension Deposit Fd	117.9	124.1	–	41925

For National Fin see Target Life

National Mutual Life

The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	Yield Gross	City-line
Harvester Pension Funds				
Managed	162.5	171.1	–	43141
UK Equity	167.5	176.4	–	43135
Overseas Equity	131.4	138.4	–	43136
Fixed Interest	155.2	163.4	–	43137
Property	130.3	137.2	–	43138
Index Linked	151.5	159.5	–	43139
Deposit	164.7	173.4	–	43140
With Profits (B)	134.7	141.9	–	44128

National Provident Institution

48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	339.9	357.8	–	43163
UK Equity	423.1	445.4	–	43164
Overseas Eq	323.9	341.0	–	43165
American	273.9	288.4	–	43166
Far East	347.3	365.6	–	43167
Property	194.3	204.6	–	43168
Fixed Int	273.2	287.6	–	43169
Indexed Gilt	161.4	169.9	–	43170
Deposit	188.3	198.3	–	43171
With Profit	105.4	111.0	–	44771
Pension Fund (Accum Units)				
Managed	491.6	517.5	–	43173
UK Equity	573.7	603.9	–	43175
Overseas Eq	552.2	581.3	–	43177
American	347.7	366.1	–	43179
Far East	570.3	600.4	–	43181
Property	248.0	261.1	–	43183
Fixed Int	340.6	358.6	–	43185
Indexed Gilt	176.1	185.4	–	43187

Providence Capital Life Assc. Co Ltd

2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	Yield Gross	City-line
UK Equity Acc	210.6	222.2	–	43411
UK Fixed Int Acc	191.4	201.9	–	43412
Intl Equities Acc	165.7	174.8	–	43413
UK Managed Acc	166.4	175.5	–	43414
Property Acc	224.5	236.9	–	43415
Money Acc	134.2	141.5	–	43416
Special Market Acc	141.4	149.2	–	43417
Japan Equity Acc	94.7	99.9	–	46760
North American Acc	95.5	100.8	–	43419
Pacific Acc	90.5	95.5	–	43420
Technology Acc	116.8	123.3	–	43421
Nat Resources Acc	36.1	38.2	–	43422
European Acc	95.8	101.1	–	43424
Residential Prop Acc	90.6	95.6	–	43425
Swiss Equities Acc	31.5	33.3	–	43426
Hong Kong Acc	68.2	72.0	–	43427
UK High Inc Eq Acc	68.1	71.9	–	43428
Int Fixed Interest Acc	60.7	64.1	–	46406
Int Managed Acc	54.6	57.5	–	46407
HIP Managed Acc	112.3	118.4	–	46751
HIP Managed II Acc	97.6	102.9	–	41928
HIP Managed III Acc	105.9	111.7	–	45881
Total Investment Bond				
UK Equity Initial		142.8	–	43429
UK Fixed Int Initial		129.9	–	43430
Intl Equities Initial		111.6	–	43431
UK Managed Initial		115.0	–	43432
Property Initial		153.5	–	43433
Money Initial		91.5	–	43434
Special Market Initial		109.4	–	43435
Japan Equity Initial		73.2	–	46762
North American Initial		73.9	–	43437
Pacific Initial		78.0	–	43438
Technology Initial		90.4	–	43439
Nat Resources Initial		42.6	–	43440
European Initial		85.6	–	43442
Residential Prop Init		86.2	–	43443
Swiss Equities Initial		30.1	–	43444
Hong Kong Initial		65.0	–	43445
UK High Inc Eq Init		64.8	–	43446
Int Fixed Interest Init		58.5	–	46408
Int Managed Init		52.8	–	46409
HIP Managed Init		108.8	–	46752
HIP Managed II Initial		95.8	–	41927

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

MANAGEMENT SERVICES

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Baring International Fd Mngrs (Ireland) Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Australia	$16 16	16 97xd	1 05	44759
Japan Tech	$57 24	60 11	–	44762
Japan Fund	$24 37	25 59	0.17	44763
Japan New Grth Fd	$18 16	19 07	–	44764
Malay Sing	$53 91	56 61	0.31	44765
Nth American	$21 86	22 96	0 58	47418
Octopus Fund	$21 64	22 73xd	0 88	44766
Pacific Fd	$61 16	64 22xd	–	44767
International Bond	$17 07	17.93xd	6 89	44769
Europa Fund	$12 93	13 58xd	–	47191
Britain Screen Fd	£0 86	0 91xd	–	47190
Trustar Warrant	$11 04	11 60	–	47419
Hong Kong	$51 60	54.18xd	3 09	44761
Mngd Portfolio (Stg)	£3 98	4 30	–	47319
Mngd Portfolio (Dllr)	$10 08	10 64	–	47318
Currency Fd–Sterling		£19 75	–	44755
Currency Fd–US Dollar		$15 48	–	44754
Curr Fd–Deutschemark		DM40 98	–	44756
Curr Fd–Managed $	$45 84	48 13	–	44758

Federated International Funds Plc

Federated Short-term US Gov't Securities Fund

Institutional Ser Srs *	$1 00		4 63	40562
Investment Series *	$1 00		4 53	40563

* Annualised Yield

ISLE OF MAN (SIB RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1600)F

Lord Street Douglas IoM 0624 661551

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
ADI Managed (z)	5	[illegible]	0 5706	0 6076	1 35	44675
ADI Mgd Currency (z)	5	[illegible]	0 4098	0 432	5 3	44676
ADI W'wide Eq (z)	5	[illegible]	0 6452	0 6871	1 12	44677
ADI Nth Amer Gth (z)	5	[illegible]	0 7827	0 8335	0.01	44678
ADI Far East (z)	5	$1.077	1.077	1 147	1 16	44679
ADI Gilt & Income (z)	5	[illegible]	0 2549	0 2687	8 49	44680
ADI UK Cap Gth (z)	5	[illegible]	0 2148	0 2287	3 54	44681
ADI Europe Fd (z)	5	[illegible]	1 069	1 135	1 52	44682

For conversion Prices of Shares Phone 0624 662860

Asset Global Funds Ltd (1200)

Victory Hse Prospect Hill Douglas IoM 0624 620097

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
French Equity	5	[illegible]	131.34	140 7	–	44689
UK Gilt	5	[illegible]	10.271	10 82	–	44690
Intl Equity	5	[illegible]	12.812	13 71	–	44691
US Bond	5	$9 930	9 930	10 46	–	44692
Gilt Accum	5	£ 9940	9940	1 0437	0	47016
ECU Bond	5	[illegible]	1 0060	1 0587	–	47015
Sterling Cash Acc	5	£ 9987	9987	1 0381	–	47017
International Bond	5¼	£ 8721	8721	9215	–	46800
ECU & DM Bond	5¼	£ 9844	9844	1 0396	–	46798

TSB Trust Funds – Contd.

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK Equity	5	137 74	137 74	149 07	0 93	43572
International Equity	5	111.52	111.52	118.68	0.00	43569
Far Eastern	5	86.58	86.58	92.88	0 00	43461
European	5	78 63	78 63	83 37	0 00	43450
Pan American	5	148.06	148.06	156 98	0.00	43570

TSB Gilt Fund Ltd

Quarterly Share	3	98.20	98 20	101.48	10 15	45833
Monthly Share	3	96 06	96 06xd	99.24	10 38	45834

JERSEY (REGULATED)(**)

Barclays Intl Funds

	Bid Price	Offer Price	Yield Gross	City-line
Currency Funds				
Sterling		£21 48	9.5	44718
US Dollar		$31.53	3 6	44719
Deutschemark		DM55.58	7 9	44720
Yen		Y4,063	5 0	44721
Managed Multicurrency	£13 12	13 59	–	44722
Managed Multicurrency	$25.30	26.20	–	44723
Bond Funds				
Sterling Bond	£0 407	0 423	10 6	44724
US Government Income	$99 42	102.96	6.7	44725
Asian Selection Funds				
Hong Kong	$13.101	13.791	3.0	44544
Indonesia	$7.999	7.999	2.5	44686
Korea	$9 667	10.176	2.5	44687
Malaysia	$9 526	10 027	0.5	44695
Philippines	$10 648	11.208	2.5	44699
Singapore	$11.386	11.985	1.0	44700
Thailand	$11 786	12.406	2.5	44717
South East Asia	$10 970	11.547	3.0	44716
US Dollar Liquidity	$9.579	10.058	3 4	44875

Cater Allen Investment Management (CI)

CA Gilt Income	£6 47	6 76	17 75	44830
CA Gilt & Futures	£1.025	1.077	7.43	44831
CA Equity Grwth	£4.01	4.36	3.44	44832

Citibank (CI) Ltd "Citifunds"

	Bid Price	Offer Price	Yield Gross	City-line
Liquidity Funds				
Deutschmark		DM30 124	–	44834
Yen		Y3010 906	–	44835
Sterling		£12.226	–	44836
US Dollar		$18.243	–	44838
Managed		$18.529	–	44839
Short term Investment Funds				
Irish £ Dec 5		112.679	–	44841
Equity Funds				
Global Equity		$16.764	–	44843
Japan Equity Dec 5		$9.431	–	44845
European Equity Dec 2		$14 212	–	44847
US Em Hith Dec 2		$21.612	–	44849

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Swedish krona under pressure

THE decision by the Swedish authorities to raise interest rates by 6 percentage points to 17.5 per cent brought temporary relief to the weakening krona last week.

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

The D-Mark closed on Friday at SKr3.6645-60, little changed on the levels prevailing earlier in the week. The view of many Swedish international companies is that with such a tight monetary policy the government will now be able to avoid the sort of damaging devaluation forced upon Finland.

The recently-elected government in Sweden will be hoping that its multi-nationals are correct. Swedish industry is certainly not as dependent upon the collapsing Soviet economy as Finland; and there is not the same disenchantment among exporters about the krona being pegged at too high a level against the Ecu.

Nevertheless, as long as Sweden remains outside the ERM it will continue to be a popular target for currency speculators. Over the past three weeks the Swedish central bank has spent almost a quarter of its reserves *keeping the krona within its* self-imposed 1½ per cent band against the Ecu.

The Norwegian economy is even less like the Finnish economy. But on Friday, the markets scented panic when the Norwegian Finance Ministry was forced to say that the krone will not be devalued just as money market rates rose by one point to 11 per cent.

The "Finnish disease," as Mr Carl Bildt, the Swedish prime minister recently put it, is in danger of spreading to countries in the rest of Scandinavia.

£ IN NEW YORK

Dec.6	Close	Previous Close
£ Spot	1.8160-1.8170	1.7970-1.7980
1 month	0.88-0.85pm	0.84-0.82pm
3 months	2.64-2.61pm	2.55-2.52pm
12 months	9.73-9.63pm	9.53-9.43pm

Forward premiums and discounts apply to the US dollar

EXCHANGE CROSS RATES

Dec.6	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Ecu
£	1	1.810	2.845	232.0	9.727	2.515	3.205	2152	2.056	58.75	1.402
$	0.552	1	1.572	128.2	5.374	1.390	1.771	1189	1.136	32.46	0.775
DM	0.351	0.636	1	81.55	3.419	0.884	1.127	756.4	0.723	20.65	0.493
YEN	4.310	7.802	12.26	1000.	41.93	10.84	13.81	9276	8.862	253.2	6.043
F Fr.	1.028	1.861	2.925	238.5	10.	2.586	3.295	2212	2.114	60.40	1.441
S Fr.	0.398	0.720	1.131	92.25	3.868	1	1.274	855.7	0.817	23.36	0.557
N Fl.	0.312	0.565	0.888	72.39	3.035	0.785	1	671.5	0.641	18.33	0.437
Lira	0.465	0.841	1.322	107.8	4.520	1.169	1.489	1000.	0.955	27.30	0.651
C$	0.486	0.880	1.384	112.8	4.731	1.223	1.559	1047	1	28.57	0.682
B Fr.	1.702	3.081	4.843	394.9	16.56	4.281	5.455	3663	3.500	100.	2.386
Ecu	0.713	1.291	2.029	165.5	6.938	1.794	2.286	1535	1.466	41.90	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

PHILADELPHIA SE £/$ OPTIONS

£31,250 (cents per £1)

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
1.675	16.25	13.75	13.85	13.75	-	0.06	0.42	0.85
1.700	11.25	11.35	11.35	11.25	-	0.15	0.76	1.28
1.725	8.85	8.85	8.98	9.09	0.01	0.40	1.26	1.93
1.750	6.35	6.58	6.90	7.11	0.04	0.83	1.95	2.71
1.775	3.97	4.63	5.19	5.44	0.17	1.51	2.83	3.75
1.800	2.03	3.04	3.75	4.07	0.76	2.50	4.01	5.03
1.825	0.77	1.94	2.65	2.99	2.03	3.87	5.50	6.56

Previous day's open int: Calls 364,421 Puts 438,320 (All currencies)
Previous day's volume: Calls 22,242 Puts 10,648 (All currencies)

LONDON MONEY RATES

Treasury Bills (sell); one-month 10⅛ per cent; three months 10 1/16 per cent; six months 9 15/16 per cent; Bank Bills (sell): one-month 10¼ per cent; three months 10 3/16 per cent; Treasury Bills; Average tender rate of discount 10.0850 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day November 29, 1991. Agreed rates for period Dec.25, 1991 to January 25, 1992, Scheme I: 11.74 p.c., Schemes II & III: 11.75 p.c. Reference rate for period November 1, 1991 to November 29, 1991, Scheme IV&V: 10.513 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11 from December 1, 1991. Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7 per cent; one-three months 9½ per cent; three-six months 9 per cent; six-nine months 9 per cent; nine-twelve months 9 per cent; Under £100,000 7 per cent from Sept 5, 1991. Deposits withdrawn for cash 5 per cent.

FINANCIAL TIMES STOCK INDICES

	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Nov 29	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	86.70	86.54	86.22	85.98	85.90	86.04	87.94	82.17	127.4	49.18
Fixed Interest	96.68	96.34	96.03	95.84	95.78	95.68	97.17	90.59	105.4	50.53
Ordinary	1802.8	1822.4	1839.5	1838.3	1831.5	1840.1	2108.3	1606.3	2108.3	49.4
Gold Mines	163.6	163.9	168.1	168.9	170.9	171.4	222.8	127.0	734.7	43.5
FT Act All-Share	1148.49	1156.71	1166.58	1168.18	1164.78	1168.95*	1284.07	987.46	1284.07	61.92
FT-SE 100	2388.7	2407.0	2423.8	2420.2	2414.9	2420.2	2679.6	2054.8	2679.6	986.9
FT-SE Eurotrack 100	1041.38	1050.13	1058.20	1056.25	1047.98	1062.86	1165.54	900.45	1165.54	900.45
FT-SE Eurotrack 200	1086.91	1096.92	1105.53	1101.90	1093.16	1107.23	1198.60	938.62	1198.60	938.62

*Corrected.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY DECEMBER 6 1991								THURSDAY DECEMBER 5 1991					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	% chg ($) since 31/12/90	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/90	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1991 High	1991 Low	Year ago (approx)
Australia (69)	148.27	+25.6	121.42	120.06	121.14	126.60	+24.4	4.61	151.20	124.99	123.01	124.91	128.62	160.31	112.74	123.39
Austria (20)	166.58	−15.3	136.41	134.89	136.10	137.06	−10.4	2.10	166.84	137.91	135.73	137.83	138.50	222.37	153.86	210.78
Belgium (47)	135.29	+2.3	110.79	109.54	110.53	108.27	+7.3	5.47	134.21	110.94	109.17	110.87	108.39	151.20	116.04	139.13
Canada (115)	136.12	+4.7	111.47	110.22	111.21	111.96	+2.5	3.33	135.76	112.23	110.44	112.15	111.77	144.28	126.49	129.25
Denmark (37)	258.49	+11.1	211.68	209.32	211.19	214.90	+17.6	1.86	254.57	210.44	207.10	210.30	215.35	270.56	217.74	244.41
Finland (15)	77.34	−25.0	63.33	62.63	63.19	69.06	−12.0	3.53	75.99	62.82	61.82	62.78	69.06	125.15	75.80	107.30
France (109)	138.82	+5.4	113.68	112.40	113.41	116.99	+11.3	3.79	138.79	114.73	112.91	114.65	118.22	152.26	119.11	146.06
Germany (65)	112.37	+0.4	92.01	91.00	91.80	91.80	+5.5	2.51	110.79	91.58	90.14	91.52	91.52	125.35	94.15	122.12
Hong Kong (55)	172.28	+41.4	141.08	139.50	140.76	171.96	+41.0	4.32	170.32	140.79	138.56	140.71	170.25	176.14	119.62	128.52
Ireland (18)	156.46	+5.4	128.12	126.69	127.83	130.03	+10.5	3.86	155.53	128.57	126.53	128.48	130.72	182.46	132.88	153.57
Italy (77)	70.89	−9.5	58.05	57.40	57.92	62.94	−4.6	3.68	71.30	58.94	58.00	58.90	63.97	88.23	64.76	84.32
Japan (474)	131.31	+5.2	107.53	106.33	107.30	106.33	−0.6	0.80	131.50	108.70	106.98	108.65	106.98	146.97	118.23	128.89
Malaysia (68)	204.08	−3.8	167.11	165.24	166.73	215.24	−2.5	2.89	202.94	167.76	165.10	167.65	214.71	247.78	189.18	199.47
Mexico (17)	1320.81	+126.0	1081.59	1069.51	1079.13	4391.52	+132.7	1.17	1332.75	1101.71	1084.24	1101.01	4431.22	1404.63	534.45	613.96
Netherland (31)	145.33	+8.6	119.01	117.68	118.74	117.44	+13.9	4.60	145.01	119.87	117.97	119.80	118.47	148.25	125.70	136.04
New Zealand (14)	46.01	+6.0	37.68	37.26	37.59	43.67	+11.4	6.29	46.68	38.58	37.97	38.56	44.12	54.64	41.18	48.87
Norway (30)	169.84	−16.9	139.08	137.53	138.77	142.93	−12.3	1.61	165.34	136.68	134.51	136.69	140.99	223.24	157.08	217.04
Singapore (38)	205.43	+28.0	168.22	166.35	167.84	156.20	+22.4	2.23	205.42	169.81	167.11	169.70	156.85	213.93	151.83	164.41
South Africa (61)	262.03	+43.3	214.57	212.17	214.07	176.78	+29.8	2.78	259.30	214.35	210.95	214.21	176.30	271.99	173.00	180.58
Spain (63)	147.48	+5.1	120.77	119.43	120.50	113.69	+11.9	4.66	147.05	121.56	119.63	121.48	113.69	171.12	131.51	151.98
Sweden (25)	170.79	+7.1	139.86	138.30	139.54	145.67	+9.6	3.06	167.58	138.53	136.34	138.45	144.39	204.12	146.60	173.28
Switzerland (59)	95.27	+7.1	78.01	77.15	77.85	82.04	+16.7	2.46	94.35	77.99	76.76	77.95	82.33	100.67	82.17	93.87
United Kingdom (238)	172.57	+4.2	141.31	139.72	140.98	141.31	+11.0	5.30	172.21	142.36	140.08	142.25	142.38	187.44	158.27	170.56
USA (526)	154.49	+15.9	126.51	125.10	126.22	154.49	+15.9	3.15	153.84	127.17	125.16	127.10	153.84	161.69	125.95	132.36
Europe (824)	138.65	+3.1	113.54	112.27	113.28	114.15	+9.4	4.23	138.03	114.11	112.30	114.04	114.80	151.62	125.50	142.11
Nordic (107)	175.78	+4.8	143.94	142.34	143.62	142.69	+9.6	2.26	172.64	142.71	140.45	142.62	142.17	200.81	155.56	178.82
Pacific Basin (718)	132.66	+6.9	108.64	107.48	108.39	108.58	+1.5	1.14	132.89	109.85	108.11	109.78	109.21	146.92	117.88	128.32
Euro−Pacific (1542)	135.38	+5.2	110.86	109.61	110.60	111.56	+4.6	2.40	135.27	111.82	110.04	111.74	112.20	147.66	121.29	134.29
North America (641)	153.28	+15.2	125.52	124.13	125.25	151.61	+15.1	3.16	152.65	126.18	124.20	126.13	151.00	160.44	125.91	132.08
Europe Ex. UK (586)	118.20	+2.3	96.79	95.73	96.59	98.47	+8.2	3.45	117.47	97.11	95.59	97.07	98.90	129.80	103.58	124.40
Pacific Ex. Japan (244)	145.97	+26.0	119.53	118.22	119.27	129.70	+25.2	4.18	146.61	121.19	119.29	121.13	130.20	153.19	111.40	120.93
World Ex. US (1735)	137.49	+6.1	112.59	111.34	112.34	113.33	+5.4	2.43	137.36	113.55	111.75	113.48	113.94	148.16	122.32	134.86
World Ex. UK (2023)	139.29	+10.3	114.07	112.80	113.82	124.62	+9.0	2.40	138.99	114.90	113.08	114.84	124.78	146.16	120.06	129.28
World Ex. So. Af. (2200)	141.39	+9.2	115.78	114.50	115.53	125.77	+9.0	2.69	141.10	116.64	114.80	116.58	126.02	148.66	122.92	132.64
World Ex. Japan (1787)	149.31	+11.7	122.27	120.92	122.01	137.22	+14.2	3.57	148.74	122.96	121.02	122.90	137.21	155.59	126.69	136.34
The World Index (2261)	142.20	+9.6	116.44	115.15	116.19	126.23	+9.2	2.70	141.89	117.29	115.44	117.23	126.47	149.37	123.28	132.92

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
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Constituent change during the week ending 6/12/91: Deletion: Beazer (U.K.). *Markets closed December 6: Finland and Spain.*

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

Wimbledon & South West Finance PLC
114 Newgate St, London EC1 7AE 071-606 9485
High Int Cheque Acc. | 10 60 | 7 95 | 11.03 | –

NOTES– Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate' Int Cr: Frequency at which interest is credited to the account.

LONDON SHARE SERVICE

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	W'k% ch'nge	Div net	Dividends paid	Mkt capEm	Last xd	City line
Sphere Inc		19	-2.6	3.07	MyAuNvFe	23.0	28.10	4278
Zero Div Pf		65¾	-1.5	–	–	49.6	–	5227
Warrants		3	-7.7	–	–	0.36	–	5078
Strata		145	-1.4	1.32	Feb	22.1	31.12	4127
Stratton		148	-3	1.85	Jun	18.4	3.8	4128
TR City of Lon		110¾	-9	4.56	FeMyAuNv	211.8	14.10	4271
TR Euro Growth	s	98	-4.3	1.8	Oct	38.1	16.9	–
Ptg Sub	§	56	—	1.8	Oct	2.83	16.9	–
TR Far East Inc		78xd	—	4.2	ApJyOcJa	36.2	25.11	4285
Warrants		16	-5.9	–	–	1.48	–	–
TR High Inc	H	184	—	8.8	ApJyOcJa	22.5	14.10	2887
Sub	9	34	—	1.5	Jul	0.96	1.7	2586
TR Pacific		87	—	0.25	Apr	44.8	11.3	4581
TR Prop		27	-1.8	1.45	Jan Jul	70.8	17.6	4282
TR Smaller		136	-1.4	3.7	Mar Sep	242.4	12.8	4285
TR Technology	s	36	—	1.75	Aug	15.6	15.7	4282
Stepped Pf		40½	-1.6	5.61	Dec Jan	28.4	11.11	4889
Zero Pf		153½	-6	–	–	118.2	–	4886
Temple Bar	†	249	-1.6	11.9	Sep Mar	142.5	29.7	4191
6pc 2002		£111½	—	6%	Jan Aug	25.5	12.8	4190
Temple Em Mkts	as	165	-1.2	0.78	Sep	61.8	29.7	4890
Warrants		80	—	–	–	3.94	–	–
1pc Cv 2001		£182½	-6	0.1%	Apr Oct		-14.10	4928
Thornton Asian		59	-1.7	0.5	Jun	50.0	29.4	5842
Warrants		11	—	–	–	2.20	–	5194
Thornton Pan Euro		27	—	0.67	Jun	4.85	20.5	2123
Warrants		8	—	–	–	0.18	–	–
Throg Dual Inc		101	—	8.75	Nv Ap Jy	79.7	14.10	4218
Cap		349	1.5	–	–	12.8	–	4218
Throgmorton		49½	3.1	2.15	Aug Apr	138.8	29.7	4221
Warrants		16	—	–	–	3.88	–	4222
Throg USM		108	-1.0	3.65	Apr	17.3	11.3	5086
Warrants		16	—	–	–	0.54	–	–
Tor Inc		485	-3.6	38.8	JaMyJyDe	18.2	30.9	4257
Cap		645	-2.3	3.9	Nov	16.2	30.9	4256
Tribune		225	-3.4	6.9	Apr Aug	115.2	29.7	4302
Trust of Prop		54	—	1.36	Apr	3.89	25.2	4315
USDC		149	-1.3	4.25	May Oct	54.6	16.9	4365
US Smaller Cos		99	-1.1	–	–	19.5	–	4892

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MISCELLANEOUS - Cont.

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES - Cont.

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks which are quoted on SEAQ International
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♣ Unregulated collective investment scheme

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend excludes a special payment.
t Indicated dividend: cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
v Subject to local tax.
z Dividend includes a special payment: Cover does not apply to special payment.
E Minimum tender price.
F Dividend based on prospectus or other official estimates for 1990-91.
G Assumed dividend after pending scrip and/or rights issue.
H Dividend based on prospectus or other official estimates for 1991.
K Dividend based on prospectus or other official estimates for 1990.
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1991-92.
N Dividend based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1150 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service

Addition: Antares (Section Oil & Gas)

Deletions: Precious Metals Tst (Investment Trusts) Rockware (Packaging, Paper & Printing)

LONDON SHARE SERVICE

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING AEROSPACE

[illegible]

ENGINEERING GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HEALTH & HOUSEHOLD - Cont.

[illegible]

HOTELS & LEISURE

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

هكذا من الأصل

4:00 pm prices December 6

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	1991 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16⅞	9¼	AAR Corp	0.48	4.0	16	495	12¼	11⅞	12	-⅛
22⅞	14½	A L Labs A	0.16	0.8	23	307	21	20¾	21	
55¾	40⅞	AMP Inc	1.44	2.7	21	1362	52⅞	52½	52⅝	-½
68⅝	44¼	AMR				115935	59½	58¾	59⅜	+¼
2⅝	1	ARX			1	32	1⅛	1⅛	1⅛	+⅛
56	41½	ASA	3.00	6.0	14	606	50⅛	49⅝	49⅞	+¼
61⅜	39¼	Abbott Lab	1.00	1.7	24	3924	60½	58¾	60⅛	+1⅛
14⅝	9⅞	Abitibi Pr	0.44	3.3	18	8	13⅜	13¼	13⅜	+⅛
11⅝	10⅞	ACM Gvt In x	1.26	11.3		616	11⅛	11	11⅛	
9¾	8¾	ACM GvOpp x	1.01	10.6		162	9⅝	9½	9½	-⅛
9½	8¼	ACM Gvt Sp x	1.01	10.9		287	9¼	9⅛	9¼	+⅛
11	9⅞	ACM Gvt Se x	1.26	11.8		232	10⅝	10½	10⅝	
9	7⅝	ACM Man	1.01	11.5		714	8¾	8⅝	8¾	+⅛
12⅞	11½	ACM Managd x	1.35	10.9		142	12⅜	12¼	12⅜	+⅛
7½	4¾	Acme Cleve	0.40	6.8	13	12	6	5⅞	5⅞	-⅛
6	3⅜	Acme Elect			3	z100	4⅝	4⅝	4⅝	
40	22¾	Acuson			18	1818	28¼	27¾	28⅛	-⅛
20¼	14¼	Adams Expr	1.63	9.1	0	33	17⅞	17¾	17⅞	+⅛
20⅛	17½	Adobe12Pf	2.40	13.0		19	18½	18¼	18½	
9⅛	5⅝	Adobe Res			62	1483	6⅛	d5½	6¼	+⅝
38⅞	16	Ad Micro x				117	u38⅞	38½	38½	-⅜
15¾	4⅝	Ad Micro P	3.00	19.8	75	9901	u16¼	14⅞	15⅛	+⅛
5⅛	2¼	Advest Grp	0.16	3.8	6	72	4⅜	4⅛	4¼	
49⅛	31⅞	Aetna Ll x	2.76	7.1	7	2479	39⅜	38⅞	39	-¼
10⅝	6⅝	Ahli A	0.24	2.8	77	957	8½	8⅜	8½	
20⅞	12	Ahmanson	0.88	6.1	9	1192	14½	14	14⅜	+¼
19⅜	2⅞	Aileen Inc			19	190	u19⅜	18⅞	18⅞	-⅛
74⅛	51⅜	Air Pr Chm x	1.56	2.3	15	1112	67⅞	67	67⅝	-¼
30	18⅝	Airbne Frt	0.30	1.4	15	375	21	20⅛	20⅝	-⅜
22½	12½	Airgas Inc			98	13	20⅝	20⅝	20⅝	

NYSE COMPOSITE PRICES

1991 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
21⅝	11⅞	Safeway			12	1672	16½	16	16⅛	+⅛
4⅞	2⅝	SafewayW96				679	3½	3⅜	3½	
35⅝	25⅞	StJoePaper	0.20	0.6	41	58	31½	30⅞	30⅞	-⅝
34⅛	26⅝	StJoeL&P	1.66	5.0	13	24	33½	33⅛	33⅜	
74⅛	57	St Paul's,x	2.60	3.9	7	721	67	65	66½	+⅛
4¼	1½	Salant Crp			0	21	2½	2½	2½	
69¾	43⅝	Sallie Mae x	1.00	1.6	16	1133	63½	62¾	63⅛	+⅝
14¼	10⅜	Salomon Br	1.67	12.6		480	12⅞	12½	12⅞	+⅛
37	20⅛	Salomoninc x	0.64	2.3		64170	28	27½	27⅝	-⅛
45⅛	37⅛	SanDgo G&E x	2.80	6.5	12	585	43	42⅝	43	
4⅝	2¼	SantaFeEDu	0.50	16.7	23	87	3	d2¾	3	+⅛
16⅞	9¼	SantaFeERs	0.16	1.6	22	1754	10	d9	9⅞	+⅜
35⅛	25	SantaFePac	2.70	8.0	10	75	33⅝	33	33½	
12¼	5⅛	SantaFeSth				5864290	11⅞	11⅛	11⅜	
52¾	29⅝	Sara Lee x	1.00	2.0	17	3146	50⅞	49¾	50⅛	
⅛	⅛	Savin Corp				01652	0.06	d⅛	⅛	
7⅞	1⅜	Savin 0.60	0.60	37.6		4	2⅛	2⅛	2⅛	
41½	33½	Scana Corp x	2.62	6.4	12	199	41	40⅝	41	+⅛
46⅞	38	Scecorp x	2.72	6.0	12	2003	45⅞	45⅛	45⅝	+⅛
65⅛	40⅞	ScheringPl	1.32	2.2	20	4649	61⅛	59½	60⅛	-⅝
74	50½	Sch'berger x	1.20	2.0	22	7106	63	61⅛	61⅛	-1
25½	7⅛	Schwab(C)	0.11	0.5	28	471	23⅛	22⅛	23	+⅝
8⅞	3⅞	Schwitzer			11	19	6	6	6	-⅛
17⅞	11½	ScientAtln	0.16	1.1	44	711	15	14⅞	14⅞	
9⅝	6	Scotsman	0.10	1.3	12	96	7⅝	7½	7½	

Price data supplied by Telekurs.

Owing to problems at Telekurs, some North American prices are temporarily being marked as xd early.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

1991 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
35¼	14⅛	Xtra 1.94				25	23½	23	23	
28⅞	14⅛	Xtra Corp	0.72	2.6	61	64	27⅞	27⅛	27⅞	+⅛
27⅞	21⅛	Yankee Egy	1.60	6.2	12	41	25⅞	25⅛	25⅞	+½
1½	⅛	Zapata			48	256	⅞	d½	½	
9⅝	5⅛	ZenithElec			2	248	7⅞	7⅛	7⅛	+⅛
18½	12	Zenith Nat	1.00	6.8	12	2547	15	14⅞	14⅞	-⅛
6⅝	4½	Zenix Inc	0.84	13.7		34	6⅛	6⅛	6⅛	
15⅛	10⅛	Zero Corp	0.40	3.8	13	112	10⅞	10⅝	10⅝	
41⅞	29½	Zurn Ind x	0.88	2.7	13	189	33½	32⅝	32⅝	-1⅛
13½	10⅛	Zweig Fund	1.16	9.2		206	12⅞	12⅝	12⅝	-⅛
10½	6½	Zweig Tot x	0.96	9.4		599	10⅛	10⅛	10⅛	-⅛

AMEX COMPOSITE PRICES

4:00 pm prices December 6

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Oilgear	0.24	33	119	22½	22¼	22¼	-¼
OMI Corp	0.14	8	289	7⅝	7⅝	7⅝	-⅛
Pall Corp	0.44	24	2500	34¾	33¾	34	-1
Pegasus G		7	586	12½	12¼	12½	+⅛
Perini		6	24	9⅞	9¾	9¾	-⅛
Pet HMP x	0.31	7	35	11	10½	10½	-⅜

NASDAQ NATIONAL MARKET

4:00 pm prices December 6

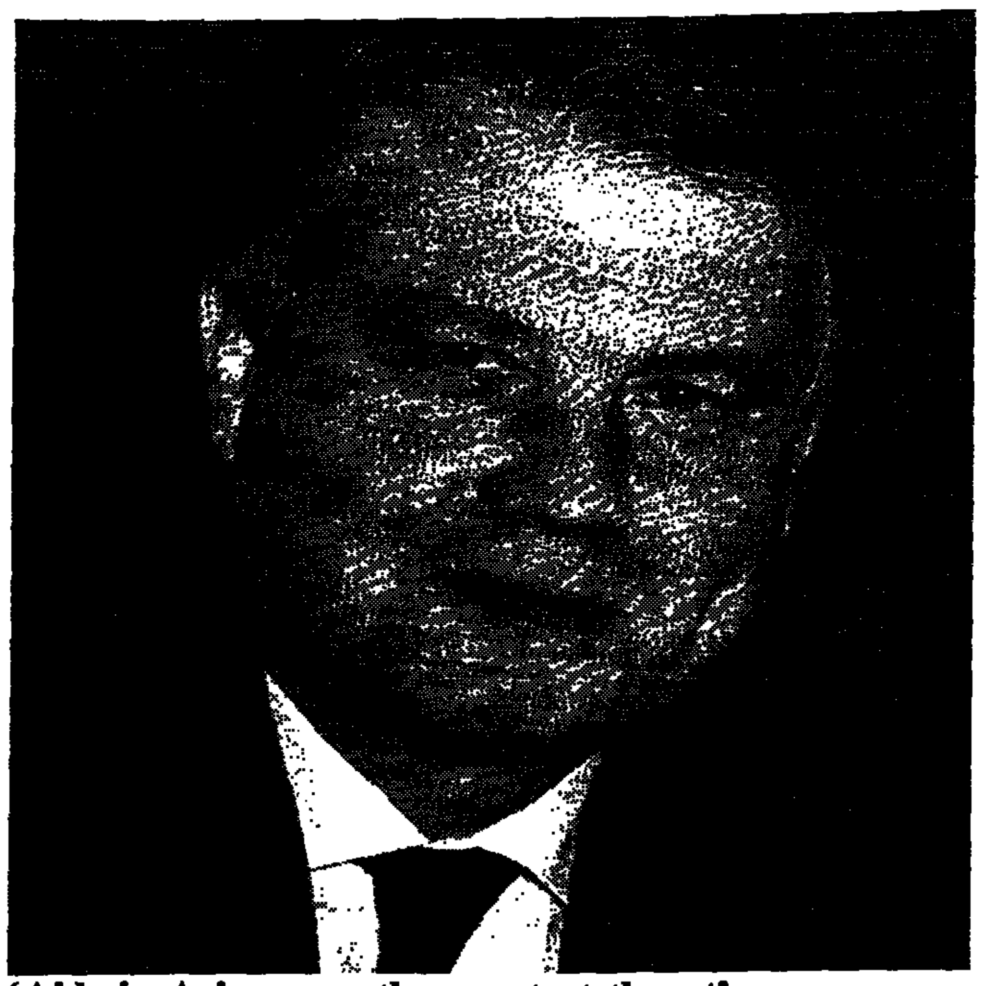
- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		30	2717	28	27	27¼	-¼
XL Data		31	89	10½	10⅜	10⅜	
Xoma Corp		11	13672	20	18¾	19½	+1
Yellow Fr	0.94	84	4990	26	25⅜	25½	-⅜
York Rsch		56	2487	7⅛	6⅝	6¾	-¼
ZionsUtah	1.44	8	103	41¼	39½	39½	-¼

MONDAY INTERVIEW

Fighting to clear the Aids 'fog'

Professor Luc Montagnier, Europe's top researcher into the disease, talks to **Clive Cookson**



Professor Luc Montagnier, Europe's leading Aids researcher, feels excited again, as excited as in 1983 when he led the French team that discovered HIV, the virus that causes the disease.

The years after that were frustrating – *on a personal* level because of his prolonged dispute with Dr Robert Gallo of *the US National Institutes of* Health (NIH) over who first identified the virus, and on a scientific level because the disease turned out to be far more complex and difficult to understand, let alone cure, than anyone had imagined.

But *the past few months* have been a period of enlightenment for Prof Montagnier. *Results from his own labora*tory at the Institut Pasteur in Paris and other European research centres are leading to a new understanding of Aids – an understanding that will not only benefit Aids patients but also help people suffering from other disorders of the immune system, such as multiple sclerosis.

Indeed he says Aids research is beginning to shed light on one of the greatest mysteries of medicine, the ageing process. "I'm impressed by the way young people with Aids have a syndrome which at the end resembles accelerated ageing."

*At the same time Prof Mon*tagnier has emerged from the dispute with Dr Gallo as the undisputed *discoverer of HIV*. Investigations in the US revealed that the virus "identified" by Dr Gallo was actually Prof Montagnier's virus. The *French group had sent a sam*ple of its virus to the US in 1983 and it somehow contaminated *Dr Gallo's cell cultures.*

The US government trumpeted the NIH "discovery", prompting an almighty Franco-American row. The hostility is only now beginning to cool as the NIH has come to finally acknowledge that the French team had indeed discovered the virus first.

Prof Montagnier has the formal and reserved manner that is characteristic of senior French scientists – and a complete contrast to the loud and loquacious Dr Gallo. He clearly has strong feelings about the American whose name was for several years linked with his as co-discoverer of the Aids virus, but prudence prevents him expressing them in public.

What he will say is that the Gallo-Montagnier affair "has given a bad image of Aids research to the public. It could have been different if the personality of Gallo and his co-workers had been different. No one will ever know what happened in Gallo's laboratory but I hope that the inquiries going on [at NIH] will give us some clues. Not only for myself but also for the sake of the ethics of science. It is important to find out the truth."

Prof Montagnier's official job – head of the viral cancer research unit at the Institut *Pasteur – has* not changed since 1972. But his spacious office in the institute's new Aids research building, opened last spring, shows his real status. It would be fitting accommodation for the director of a large company: an extensive *suite of grey and black office* furniture still smelling of new leather, a silky soft carpet of *the palest grey colour*, and modern paintings on the walls.

Yet Prof Montagnier has managed to remain primarily a working researcher, not a scientific politician or administrator. "I'm 120 per cent involved in Aids research," he says. His *conversation* becomes most animated when he talks about the latest research which is *beginning to dispel* the "fog" of scientific confusion around Aids.

The general conclusion is *that Aids* is not simply a viral disease caused by HIV, in the way that influenza is caused by the flu virus. "I'm a virolo*gist by training but I'm doing* more and more immunology, because Aids is a complex disease in which there is a combination of infectious and immunological factors," he says.

HIV does not destroy the immune system directly by *infecting* and killing cells, as scientists originally believed. The virus itself destroys fewer than one in 1,000 of the T-cells, the vital immune cells whose loss makes Aids patients susceptible to the secondary infections that eventually kill them.

To use one of Prof Montagnier's analogies, HIV is like an arsonist lighting a fire. The cellular conflagration then depends on "co-factors" – other viruses and bacteria which throw petrol onto the flames.

How HIV primes T-cells for premature death is not yet known. Proteins on the virus surface may send a suicide signal to the cells without infecting them directly. There is also evidence that "super-antigens", triggering a huge immune *response*, are involved. "My idea is that the super-antigen does not come only from the HIV but also from other germs and from small bacteria called mycoplasma," he says.

This year's discoveries, most of which have been made in European rather than the better funded US laboratories, promise to lead to a cornucopia *of new Aids drugs. But Prof* Montagnier wants the pharmaceutical industry, which has concentrated on developing drugs aimed directly at HIV, to devote more effort to treatments that would strengthen the immune system and fight secondary infections.

At the same time he is keen to establish an international foundation for Aids research and education. It would complement public spending in sponsoring research in areas neglected by the "Aids establishment". One example is the role of diet in Aids. Prof Montagnier believes that diet plays an important part in determin*ing the course of the disease* – plenty of fresh vegetables and red meat can help – but such research does not interest most medical scientists and the conventional funding bodies.

The Institut Pasteur is one of scores of laboratories worldwide working on vaccines against HIV infection. Here too, Prof Montagnier says, "we're less in the fog than we were two years ago. We're beginning to see what vaccine types might work." The leading candidates are based on the virus "envelope" – proteins on the surface which provoke a protective immune response.

The mainstream approach involves developing systemic Aids vaccines which would be administered once a year by injection, like flu shot. The Institut Pasteur's distinctive project is to develop a local "mucosal" vaccine to prevent sexual transmission of HIV.

The French vaccine is expected to start clinical trials on healthy volunteers next year. If it produces a good immune response, it will be a candidate for field trials which the World Health Organisation plans to hold in four developing countries during the mid-1990s.

But Prof Montagnier's strongest *message about Aids* research is that it is not just about Aids. It should concern even those people who believe that they are at no risk of HIV infection and are too self-centred to be moved by the human tragedy of Aids. (The WHO's *latest "conservative" projec*tion is that by 2000 the virus will have infected 30m-40m people and 12m-18m will have developed Aids.)

"The reason people are wrong to think Aids does not concern them personally is that the germs involved are not just the Aids virus," he says. "If there are more and more patients in the world with immune systems depressed because of Aids, that means more and more use of antibiotics. You can expect *organisms* to emerge that are resistant to all known antibiotics."

Prof Montagnier is warning in effect that Aids will lead to the emergence of super-germs, though he speaks English too elegantly to use scare-words like that. An early warning, he says, is the appearance of antibiotic-resistant tuberculosis in the US.

His skills lie more in research than in the media. Despite years of practice, Prof Montagnier does not seem quite at ease in the public eye. But he believes that, as the best-known Aids expert in *France, it is his duty to edu*cate the public about the disease.

Public education campaigns have not been very successful in France, he says. Young people are willing to take the chance of infection through unprotected sex with multiple partners. And Aids is widely seen as a disease of minorities. "Some *people think it's a* good way of solving the Third World's demographic problem," he says with a shudder.

But Prof Montagnier is not entirely pessimistic about the chances of changing people's behaviour. "There are some *encouraging results in places* where you wouldn't expect them, including Zaire."

Aids in Asia poses the greatest threat, he says. "In Zaire and some other African countries the rate of progress of the disease is beginning to slow *down, but in south-east Asia it* is exploding at an exponential rate."

'Aids in Asia poses the greatest threat'

PERSONAL FILE

- **1932** Born in Chabris, France.
- **1953-60** Scientific and medical studies in Poitiers and Paris.
- **1960-64** Virus research in UK with Medical Research *Council*.
- **1965-72** Head of laboratory at Institut Curie.
- **1972** Joins Institut Pasteur to set up viral cancer research unit.
- **1983** Leads team which discovers HIV as cause of Aids.
- **1986** Discovers a second virus, HIV-2, associated with Aids.

Bush may revive investment credits

MICHAEL PROWSE
on America

The unexpected plunge in employment last month is the clearest sign yet that the US economy is again *contracting. It will galvanise* an already anxious White House and probably result in a bolder-than-expected fiscal package next month. New incentives for industrial investment may form a central plank of policies to restore business and consumer confidence.

The 241,000 drop in non-farm payrolls was far larger than even pessimists expected and comparable with the rate of decline last winter when the *economy was contracting* at an annual rate of about 3 per cent. Job losses were concentrated in service industries and construction but every sector, including manufacturing, was affected. Luckily for the White House, the politically sensitive jobless rate did *not rise*; but this was only because the labour force shrank – hardly a *sign of economic strength.* Unemployment seems certain to rise in coming months.

After two quarters of spluttering recovery, the second leg of the recession may thus have arrived. Expect a policy response on two fronts. The Federal Reserve has already signalled a quarter point cut to 4.5 per cent in the federal *funds rate – the cost of money* in the interbank market. But this is only an opening gambit. A *substantial* monetary stimulus will require further cuts in the discount rate, which at 4.5 per cent provides a floor for the fed funds rate. Worries about inflation have evaporated and most economists (while disagreeing on every*thing else)* favour cheaper money. The Fed is likely to oblige partly because it wants to ward off pressure in Congress for a yet bigger budget deficit.

Fiscal policy is much harder to call if only because the *White House is still trying to* decide what to do. Senior administration officials testifying before Congress last week stressed the importance of fiscal discipline but did not commit themselves rigidly to last year's budget accord – which *stipulates that tax cuts must* be paid for by cuts in popular domestic programmes, such as *pensions for the elderly*, or tax increases.

Mr Richard Darman, the budget director, *said the first* priority had to be to restore growth. This suggests the administration is laying the ground for a partial retreat from the budget agreement in President George Bush's State of the Union address next *month. Mr Bush probably* recognises he cannot do much to influence growth in the near term but feels he must *make* a bold fiscal gesture if he is to appear caring and competent in an election year.

If Mr Bush's new White House team wants to make a splash, however, it must do more than warm up old policies. *It needs a "big idea"* that will convince voters the president has taken charge of economic events. The likeliest candidate is a tax credit for investment in plant and equipment.

This has numerous potential advantages. Business tax reductions are more easily reversed than income tax cuts, yet *look virtuous after* the consumption binge of the 1980s. By favouring capital spending, Mr Bush would appear to be addressing concerns about America's flagging "competitiveness". He would also win bipartisan support on Capitol *Hill where investment invokes* nearly as much respect as motherhood.

The White House would probably not attempt to resurrect the old Investment Tax Credit (ITC) – abolished in 1986 – in what now looks like *a doomed attempt to create* a level fiscal playing field. Originally introduced by the Kennedy administration, the ITC provided a flat 10 per cent sub*sidy and would cost more than* $30bn.

The way to maximise the impact of new measures would be to make them temporary and applicable only to incremental investment – say capital expenditure in excess of a company's average spending for the past three years. Structured this way, a 10 per cent *credit might cost* no more than $10bn. Yet because the fiscal window of opportunity would be brief – say one year – it might have a big impact on corporate behaviour. British readers will recall how Mr Nigel Lawson, the then chancellor, successfully stimulated capital spending in the mid-1980s by putting a time limit on *investment allowances.* As in the UK, however, some of the benefits would leak away in higher imports of capital equipment.

Tax measures, of course, have to be negotiated with the Democrat-controlled Congress. *Leading* Democrats such as Mr Richard Gephardt, the majority leader in the lower house, have stressed *that any package* must include tax reductions for middle-income Americans. The White House will not attempt to swim against this tide but will try to finance the relief by means-testing social benefits rather than raising taxes on the rich – *a strategy the Dem*ocrats will probably thwart.

Mr Bush must also placate conservative Republicans: he is thus certain to propose a cut in capital gains taxes. Enthusiasts see this as a way of shoring up asset values and bolstering *confidence*, but it could merely prompt a wave of asset sales, putting downward pressure on the prices of houses and other assets.

The final shape of tax legislation is unpredictable in an election year. Unfortunately *there is a strong chance* that no measures will be agreed quickly enough to have much influence on this recession. The irony is that, having tightened fiscal policy after the recession had begun in the autumn of 1990, Congress and the White House may succeed in cutting taxes only when the recovery is getting under way.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on [illegible] | Final Prices for Trading on [illegible]

1/2 hour period ending	Pool purchase price	Pool purchase price	Pool selling value
[illegible]	[illegible]	[illegible]	[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on [illegible] | Final Prices for Trading on [illegible]

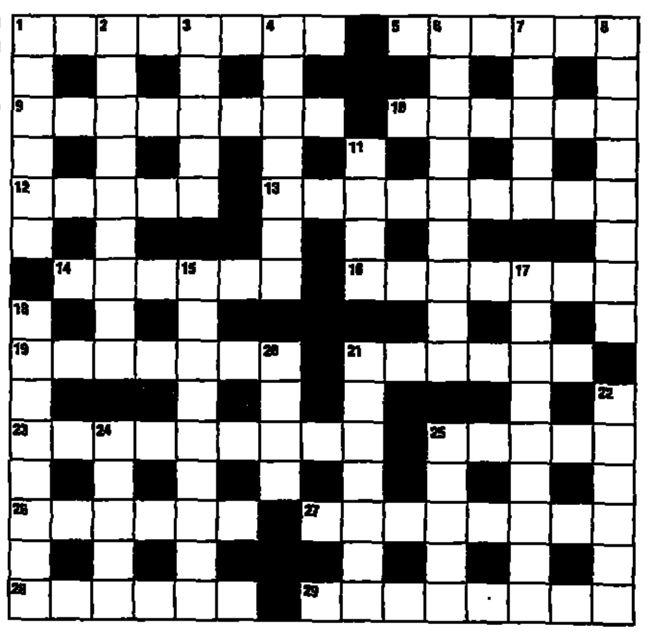
1/2 hour period ending	Pool purchase price	Pool purchase price	Pool selling value
[illegible]	[illegible]	[illegible]	[illegible]

NGC Settlements Limited

JOTTER PAD

CROSSWORD

No.7,719 Set by DANTE



ACROSS

1 Such a seat may have MPs on edge (8)
5 See me backing horse entered in Derby, for example (6)
9 Collector of items for a rainy day (5-3)
10 Fast, the Italian's pulse (6)
12 A nut-case? (5)
13 I'm beaten and confined (9)
14 Put down a whisky (6)
16 Husband shows reticence (7)
19 Could be bad sign for the corporation (7)
21 Romeo's dispositions melancholic (6)
23 I'm open about one for those who hate waiting (9)
25 Wet ring, perhaps, left to dry (5)
26 Busy tenant (6)
27 Chairman of North Sea organisation (8)
28 Pray when on board jets (6)
29 Secret coteries, perhaps (8)

DOWN

1 Plant not delicate but possibly sensitive (6)
2 Disowned tear-about member of the cat family (9)
3 Fifty idly knock up a poem (5)
4 A toss-up is hard to stop (7)
6 He's the one we're after! (9)
7 Recorded Edward as missing? (5)
8 Mother joins other females making complaints (8)
11 Mast bearing standard (4)
15 When it is, the creditor may not allow it (4,2,3)
17 We put up a list about perfume (4,5)
18 Porters join arts organisation (8)
20 They disapprove of one's make-up (4)
21 Corresponds with redheads? (7)
22 Where doctors acquire their bedside manner? (6)
24 Trend-setter in wild caper (5)
25 Card that's sweet about love (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 21.

An end to a British conceit

IAN DAVIDSON
on Europe

It is too late, and too soon, to make last-minute assessments of the European Community summit which opens today in Maastricht. Too late, because by tomorrow evening we shall know more than we can make sense of. Too soon, because the full meaning of the agreement will not become apparent for many months, or even years.

But we can be sure in advance that on one point there will be unanimity between supporters and opponents of European integration alike – that the treaty being negotiated will mark an epic watershed in the history of Europe.

With that point of agreement, however, all agreement ends. The approach of Maastricht has prompted, in Britain at least, the most comprehensive, the most extensive and the most impassioned national debate on the pros and cons of *the Community enterprise* ever staged in any member state.

The opponents of far-reaching Community integration see themselves as hard-headed realists in conflict with light-hearted utopians. But the argument really lies between reformers and conservatives, between optimists and pessimists. Anti-integrationists are pessimists who predict that a new arrangement must bring disaster; but their fears are *so powerful* that they lose all touch with hard-headed realism.

Take the contentious issue of the transition to phase three of economic and monetary union, *some time in the late 1990s*, which will open the door to a single European currency. Most of the member states want a juridically binding commitment to a single European currency; whereas *the British* government wants a specific let-out clause, ideally available to all.

This argument is either make-believe, or poetry, or politics; call it what you will. Only the realists take it literally; therefore they must have lost touch with reality.

Whatever the treaty says, *the political fact is that Emu is* an evolving process, which cannot be pre-empted in advance. *On the day, the deci*sion to give up national currencies will be made by the conscious and voluntary choice of each of the individual governments then in power; or it will not be made at all. If the French government of the day has a nationalistic revulsion against a single currency, does anybody seriously imagine a posse of grey suits coming down from Brussels to take over the Bank of France?

If France and Germany demand a treaty with a binding commitment, it is not that *future compliance* can really be enforced in juridical terms; but that a treaty commitment is an incapsulation of a serious political commitment to a desired objective.

Or take the vexed issue of a common European foreign policy. Most member states want a commitment to an increasingly common foreign policy, with some element of majority voting. In theory, the UK is in *favour of common action in* foreign policy, provided, of course, that any government can break loose at any time, and carry out its own national policy as it sees fit; and it shies at the idea that any bit of foreign policy could be decided by majority vote.

This argument, too, is really about underlying intentions, *expressed in quasi-poetic* terms; it appears the British have quite different intentions, and do not care for the poetry.

It is well-nigh impossible, for example, to imagine the wording of a majority vote on the instructions to be given to Lord Carrington in the Yugoslav crisis. So if there is some provision for majority voting *in foreign policy, it can hardly* be because it is intended to be taken literally, but rather *because it is a political symbol* of a serious commitment to act together. Whereas the British opposition to majority voting is a symbol of a political desire to resist collective action.

One consequence of the Maastricht watershed will be the precipitation of a far-reaching debate on the constitutional adequacy of the political institutions of the member states. Indeed, we may yet find *that the discipline* and the collective action of the Community will compel member states to introduce desirable constitutional reforms which they would never have introduced on their own initiative.

Understandably, the Maastricht negotiations have been concerned exclusively with the internal equilibrium of the institutions of the Community; and one of the central themes has been the question of democratic accountability and the powers of the European Parliament. *But the main political* stresses of integration will continue to be felt at the national level, and some of the national political institutions clearly need overhauling.

In France, for example, the political machinery of the Fifth Republic is in *serious* disarray. President François Mitterrand has been able to force the pace *of the Maastricht negotiations* because of his exceptional powers under the 1958 constitution. But once the treaty is signed, it will be urgent to restore the powers and the respectability of the parliament if France is to have the stability needed to handle the strains of the new Europe.

The constitutional reforms *needed in Britain are equally* far-reaching, but of an opposite kind. If the Maastricht treaty *enshrines the principles* of devolution and subsidiarity, then Britain must permit the independent existence of lower levels of government; authoritarian centralism will no longer be acceptable.

But that is not all. The Maastricht treaty must bring to an end the idiosyncratic British conceit that the House of Commons is omnipotent, however unrepresentative. In that case, the time will finally *have arrived for serious* consideration of the need for a proper constitution, with adequate *protection for the* basic human rights of the people of Britain. For such a prize, even the pessimists should be reconciled to the European Community.

BASE LENDING RATES

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